Calendar No. 68

100TH CONGRESS *1st Session*	SENATE	REPORT 100-21

HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987

REPORT

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS UNITED STATES SENATE

TO ACCOMPANY

S. 825

together with

ADDITIONAL VIEWS

MARCH 24, 1987.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
91-010 WASHINGTON : 1987

S243-4

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS

WILLIAM PROXMIRE, Wisconsin, *Chairman*

ALAN CRANSTON, California
DONALD W. RIEGLE, JR., Michigan
PAUL S. SARBANES, Maryland
CHRISTOPHER J. DODD, Connecticut
ALAN J. DIXON, Illinois
JIM SASSER, Tennessee
TERRY SANFORD, North Carolina
RICHARD SHELBY, Alabama
ROBERT GRAHAM, Florida

JAKE GARN, Utah
JOHN HEINZ, Pennsylvania
WILLIAM L. ARMSTRONG, Colorado
ALFONSE M. D'AMATO, New York
CHIC HECHT, Nevada
PHIL GRAMM, Texas
CHRISTOPHER S. BOND, Missouri
JOHN H. CHAFEE, Rhode Island

KENNETH MCLEAN, *Staff Director*
M. DANNY WALL, *Republican Staff Director*

SUBCOMMITTEE ON HOUSING AND URBAN AFFAIRS

ALAN CRANSTON, California, *Chairman*

DONALD W. RIEGLE, JR., Michigan
PAUL S. SARBANES, Maryland
CHRISTOPHER J. DODD, Connecticut
ALAN J. DIXON, Illinois
JIM SASSER, Tennessee

ALFONSE M. D'AMATO, New York
JAKE GARN, Utah
CHIC HECHT, Nevada
JOHN HEINZ, Pennsylvania
CHRISTOPHER S. BOND, Missouri

W. DONALD CAMPBELL, *Staff Director*
ROBERT MALAKOFF, *Professional Staff Member*
LIONAL S. COLLINS, *Professional Staff Member*
BRUCE J. KATZ, *Counsel*

CONTENTS

	Page
Legislative history of the act	1
Description of the legislation	2
Explanation of the legislation	3
Title I.—Program extensions and amendments	3
Subtitle A.—General extension of programs	3
Subtitle B.—Mortgage insurance and secondary mortgage market programs	4
Subtitle C.—Community and neighborhood development and conservation programs	11
Subtitle D.—Miscellaneous program amendments	14
Title II.—Housing assistance	15
Subtitle A.—Programs under United States Housing Act of 1937	15
Subtitle B.—Other housing assistance programs	18
Title III.—Rural housing	20
Title IV.—Fair housing demonstration	22
Title V.—Nehemiah housing opportunity grants	22
Section-by-section analysis	24
Title I.—Program extensions and amendments	24
Subtitle A.—General extension of programs	24
Sec. 101: Permanent insurance authority for FHA	24
Sec. 102: Flood insurance	24
Sec. 103: Miscellaneous extensions	24
Subtitle B.—Mortgage insurance and secondary mortgage market programs	25
Sec. 121: Limitation on Federal Housing Administration insurance premiums	25
Sec. 122: Adjustments to rental housing insurance mortgage limits	25
Sec. 123: Refinancing of graduated permanent mortgages	25
Sec. 124: Refinancing mortgage insurance for hospitals, nursing homes, intermediate care facilities, and board and care homes	25
Sec. 125: Mortgage insurance for nursing homes, intermediate care facilities, and board and care homes	25
Sec. 126: Requirement of State approval for mortgage insurance for hospitals	26
Sec. 127: Release of pool funds	26
Sec. 128: Increase in authority to insure adjustable rate single family mortgages	26
Sec. 129: Limitations on certain secondary mortgage market fees	26
Sec. 130: FNMA cumulative voting	26
Sec. 131: Mortgage insurance program loss reduction	27
Sec. 132: Mortgages on Hawaiian Homelands and Indian Lands	27
Sec. 133: FHA title I regulations	27
Sec. 134: Home equity conversion mortgage insurance demonstration	27
Sec. 135: Authority to purchase second mortgages	28
Sec. 136: Miscellaneous amendments	28
Sec. 137: Change in the definition of veteran	29
Sec. 138: Repeal of section 244(c)	30
Sec. 139: Prototype housing costs	30
Subtitle C.—Community and neighborhood development and conservation programs	30
Sec. 141: City and county classifications	30
Sec. 142: Urban development action grant program	30

Page

Section-by-section analysis—Continued
Title I.—Program extensions and amendments—Continued
Subtitle C.—Community and neighborhood development and conservation programs—Continued
Sec. 143: Prohibition on use of urban development action grants for business relocations ... 31
Sec. 144: CDBG authorization ... 31
Sec. 145: Urban homesteading ... 31
Sec. 146: Rehabilitation loan fees ... 32
Sec. 147: Neighborhood Reinvestment Corporation ... 32
Sec. 148: Neighborhood development demonstration program ... 32
Sec. 149: Technical amendments ... 32
Sec. 150: Urban renewal land disposition proceeds ... 33
Subtitle D.—Miscellaneous program amendments ... 33
Sec. 161: Studies under national flood insurance program ... 33
Sec. 162: Collection of certain data ... 33
Sec. 163: Solar Energy and Energy Conservation Bank ... 33
Sec. 164: Research authorization ... 33
Title II.—Housing assistance ... 34
Subtitle A.—Programs under United States Housing Act of 1937 ... 34
Sec. 201: Lower income housing authorization ... 34
Sec. 202: Section 8 assistance ... 34
Sec. 203: Operating subsidies ... 34
Sec. 204: Income eligibility for assisted housing ... 34
Sec. 205: Rental rehabilitation and development grants ... 34
Sec. 206: Preventing fraud and abuse in housing and urban development programs ... 35
Sec. 207: Public housing resident management ... 35
Sec. 208: Public housing ownership opportunities ... 37
Sec. 209: Limitation on public housing development and assurance of public housing quality standards ... 38
Sec. 210: Comprehensive grants ... 38
Sec. 211: Revised definition of disability ... 39
Sec. 212: Technical amendments ... 39
Subtitle B.—Other Housing Assistance Programs ... 39
Sec. 221: Nondiscrimination against section 8 certificate holders ... 39
Sec. 222: Housing for the elderly and handicapped ... 39
Sec. 223: Housing for the handicapped ... 39
Sec. 224: Section 235 homeownership program ... 40
Sec. 225: Congregate services ... 40
Sec. 226: Tenant eligibility determinations in rent supplement projects ... 40
Title III.—Rural housing ... 40
Sec. 301: Program authorizations ... 40
Sec. 302: Rural area classification ... 41
Sec. 303: Manufactured housing ... 41
Sec. 304: Amendment to section 502(d) ... 41
Sec. 305: Loan packaging by nonprofit organizations ... 41
Sec. 306: Escrowing taxes and insurance ... 41
Sec. 307: Conformance with low income housing tax credit eligibility criteria ... 42
Title IV.—Fair housing demonstration ... 42
Sec. 401: Fair housing initiatives program demonstration ... 42
Title V.—Nehemiah housing opportunity grants ... 42
Sec. 501: Statement of purpose ... 42
Sec. 502: Definitions ... 43
Sec. 503: Assistance to nonprofit organizations ... 43
Sec. 504: Use of assistance ... 43
Sec. 505: Program requirements ... 43
Sec. 506: Terms and conditions of assistance ... 44
Sec. 507: Program selection criteria ... 45
Sec. 508: Distribution of assistance to nonprofit organizations ... 45
Sec. 509: Nehemiah Housing Opportunity Fund ... 45
Sec. 510: Annual report ... 46
Sec. 511: Regulations ... 46
Sec. 512: Authorization of appropriations ... 46
Regulatory impact statement ... 46
Changes in existing law ... 46

Page
Congressional Budget Office cost estimate 47
Additional views of Senator Garn 53
Additional views of Senator Armstrong 54
Additional views of Senator Gramm 57

Calendar No. 68

100TH CONGRESS
1st Session

SENATE

REPORT
100-21

HOUSING AND COMMUNITY DEVELOPMENT ACT OF 1987

MARCH 24, 1987.—Ordered to be printed

Mr. PROXMIRE, from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

together with

ADDITIONAL VIEWS

[To accompany S. 825]

The Committee on Banking, Housing, and Urban Affairs, having considered the same, reports favorably a Committee bill (S. 825) to amend the Housing and Community Development Act of 1974; to extend certain housing assistance programs; to make permanent mortgage insurance programs; and for other purposes, and recommends that the bill do pass.

LEGISLATIVE HISTORY OF THE ACT

The Committee on Banking, Housing, and Urban Affairs has reported favorably the Housing and Community Development Act of 1987. The full Committee met on March 12, 1987, to mark up the legislation and ordered the bill favorably reported by a roll call vote with 14 in favor, 4 opposed.

Despite the importance of housing and community development programs, the Senate has considered no significant authorizing legislation on these programs for the past three years.

Many provisions in the Committee bill have been under consideration by the Committee for several years. Most were included in the Housing Act of 1986 (S. 2507) as reported favorably by the Committee on a voice vote on May 21, 1986. Mark up on S. 2507 was preceded by three days of hearings in March and April 1985. In the last Congress, numerous attempts to bring the bill before the full

91-010

Senate for consideration were ultimately frustrated. That lack of action interfered with the efficient management of many housing and community development activities across the country. The Committee is particularly disturbed that last year's inaction caused the shutdown of FHA insurance six times in one year for a total of 51 days, an unprecedented disruption that imposed needless costs on homeowners and the housing industry.

Work on this Committee bill began early in the 100th Congress. Two hearings—on February 17 and 19, 1987—were held by the Subcommittee on Housing and Urban Affairs and chaired by Mr. Cranston. Numerous witnesses offered testimony on a wide range of issues related to housing and community development. Witnesses included State and local elected officials as well as spokespersons from various interest groups. Virtually every witness called for prompt Congressional action on a housing authorization bill this year.

Secretary of Housing and Urban Development Samuel Pierce was invited to testify but finally had to decline because the Administration's legislative package had not received OMB clearance in time. The Administration's proposal did arrive shortly before mark-up. Although the Committee was able to include some provisions from the Administration's legislative package in this bill, other provisions will be considered later this year.

This bill is important "housekeeping" legislation that deserves prompt action. The Committee intends to carry out a broader, more fundamental reassessment of national housing and development policy in the months ahead. As part of that effort, the Committee intends to review the historical role of federal support for housing and community development, as implemented through numerous agencies and programs, and to consider the relationship of that federal support to the private housing industry as well as to State and local governments.

As preparation for major housing legislation begin, the Committee asserts its support for federal activities that foster an efficient national system of home mortgage finance. The Committee notes that the Federal Home Loan Bank Board has issued a letter of instruction suggesting target levels on the Federal Home Loan Mortgage Corporation's (Freddie Mac's) authority to purchase mortgages in the secondary market. This Committee urges the Federal Home Loan Bank Board not to impose limits on Freddie Mac's purchase authority and to consult with Congress in advance of any imposition of such limits in the secondary mortgage market.

Description of the Legislation

The Housing and Community Development Act of 1987 is composed largely of provisions on which broad agreement has formed over a number of months. The bill's primary purpose is to provide federal housing and community development programs with the stable support necessary for sound management and effective delivery of service.

In general, the Committee bill would (1) extend authorizations for most housing and community development programs through fiscal year 1989 with a freeze at current levels of budget authority;

(2) permanently authorize FHA mortgage insurance programs; (3) prohibit fee increases that have been proposed to reduce federal support for the nation's home mortgage finance system; (4) provide a fairer project selection system for Urban Development Action Grants; (5) permit the testing of new approaches to management of low income public housing; (6) establish a new program to build new inner-city neighborhoods and expand home ownership opportunities to families with modest incomes; and (7) implement the Fair Housing Initiatives Program.

The bill consists of five titles.

Title I, Program Extensions and Amendments, would provide permanent authorization for FHA mortgage insurance and the Home Mortgage Disclosure Act, and would improve Federal underwriting of mortgage insurance on large hospitals, nursing homes and care facilities. It would authorize FHA development of home equity conversion mortgages offering older homebuyers a safe way to convert the asset of their home into a stream of income. It would reform the Urban Development Action Grant project selection criteria to give a larger number of eligible cities a fair opportunity to receive a grant. Additionally, various community programs would be extended through fiscal year 1989.

Title II, Housing Assistance, would make improvements in assisted housing programs. It would improve administration of the rental rehabilitation and development programs and authorize a less costly procedure for developing housing that meets the special needs of nonelderly, handicapped families. It would reaffirm the nation's commitment to low-income public housing while expanding opportunities for tenant management and ownership. It would improve the prevention of fraud and abuse in HUD programs.

Title III, Rural Housing, would extend authorization for the vital programs of the Farmers Home Administration. It would authorize a conventional financing demonstration for rural single-family and multi-family homes.

Title IV, Fair Housing Demonstration, would authorize HUD to contract with governmental entities, public or private non-profit organizations to carry out fair housing activities as well as education and outreach activities concerning Title VIII of the Civil Rights Act.

Title V, Nehemiah Housing Opportunity Grants, would establish a new method for rebuilding neighborhoods in inner-cities and expand homeownership opportunities for low- and moderate-income people. The program would provide grants to nonprofit corporations to issue non-interest-bearing second mortgage loans to eligible families for the purchase of newly constructed or substantially rehabilitated homes. The maximum amount of a Nehemiah second mortgage would be $15,000.

Explanation of the Legislation

Title I.—Program Extensions and Amendments

Subtitle A.—General Extension of Programs

Permanent Insurance Authority for FHA.—The Committee bill would repeal the expiration dates in various FHA mortgage insur-

ance authorizations and thus would provide permanent authority for FHA insurance. In 1986, failure to enact a housing bill resulted in the shutdown of FHA mortgage insurance six times for a total of fifty-one days. That caused costly disruptions in the housing industry and in the lives of hundreds of thousands of Americans who were trying to sell a home, buy a home or refinance a mortgage. The Committee is determined to prevent any recurrence of that disruption.

Limitation on Flood Insurance Premiums.—The Committee bill would limit increases in the premium rate charged for flood insurance to no more than a prorated annual rate of 10 percent through fiscal 1989. The Committee expects that this limitation would permit rate increases that are needed to maintain the actuarial soundness of the flood insurance program and to cover administrative costs. The limitation is intended not to create subsidies but to prevent dramatic rate increases that have been proposed for the purposes of reducing demand for federal flood insurance.

The bill would extend the emergency implementation portion of the National Flood Insurance Act and authority to establish flood risk zones through fiscal 1989.

Miscellaneous Extensions.—The Committee bill would make permanent the 9.25 percent cap on interest rates charged under the Elderly or Handicapped Housing Loan Program.

The bill would permanently extend the Home Mortgage Disclosure Act (HMDA), which requires lenders to report on the geographic distribution of their mortgage lending. HMDA has proven to be a useful tool for discouraging redlining and other discriminatory practices.

The bill would extend Section 312 rehabilitation loan authority through fiscal 1989. Although no new appropriations would be authorized, lending could continue with funds made available through repayments and other means.

The bill would extend insurance and loan authority for rural single-family and multi-family housing until September 30, 1989.

The bill would also extend the contract authority for flood insurance policies through fiscal 1989.

SUBTITLE B.—MORTGAGE INSURANCE AND SECONDARY MORTGAGE MARKET PROGRAMS

Limitation on Federal Housing Administration Insurance Premiums.—The Committee bill would limit FHA premium charges for insurance on standard fixed-rate mortgages under FHA to 3.8 percent of the principal obligation. Premiums for other FHA mortgages would be limited to no more than 1 percent of the principal mortgage obligation. The bill would require HUD to notify Congress 90 days prior to any increase of fees. Such fee increases would be allowed solely to meet anticipated insurance claims and administrative expenses.

The Committee is aware that the 3.8 percent charge for default losses and administrative expenses has proven to be sufficient for FHA operations for many years. At the end of 1986, reserves held by FHA had grown to about $4.1 billion. Significant increases in FHA fees have been proposed not to increase program soundness

but to reduce its usefulness. The Committee opposes such fee increases as an unjustified tax on homeownership.

Adjustment to Rental Housing Insurance Mortgage Limits.—The Committee would increase the FHA multi-family mortgage limits by 30 percent, which is roughly half of the increase in housing production costs that has occurred since the current limits were established in 1979.

Refinancing of Graduated Permanent Mortgages.—The Committee bill would permit homeowners to refinance FHA 245 loans (graduated payment mortgages) for the total outstanding balance if borrower's resulting monthly payment amount would be less than the current monthly amount.

Graduated payment mortgages allow for lower payments in the initial years by covering some of the interest payment with increases in the outstanding balance. This results in a "negative amortization" with the amount of the balance being more than the amount of the original loan, and in some cases, more than the value of the property. Under these circumstances, homeowners may find that it is in their economic interest to abandon the property. Consequently, as interest rates have dropped, HUD has experienced a large foreclosure rate with older FHA 245 loans.

HUD estimates that about $20 million could be saved by allowing homeowners to refinance the entire balance at a fixed rate for the remaining term, if the new monthly payment amount would be less than the previous monthly payment amount. There would be no increase in liability for FHA since the 245 loans currently insure the outstanding loan balances.

Refinancing Mortgage Insuance for Hospitals, Nursing Homes, Intermediate Care Facilities, and Board and Care Homes.—The Committee bill would clarify statutory language establishing the requirement for state approval of hospital mortgage insurance. HUD has found it impossible to translate the current law into workable regulations because of difficulties in the current wording of the law.

Mortgage Insurance for Nursing Homes, Intermediate Care Facilities, and Board and Care Homes.—The Committee bill would allow public health care facilities to become eligible for FHA insurance. Currently, FHA insurance is limited to proprietary and private nonprofit institutions. However, public health care facilities require similar insurance, which in the absence of FHA has become prohibitively expensive and has driven up the health care costs primarily of low and moderate income people.

Requirements for State Approval for Mortgage Insurance for Hospitals.—The Committee bill would establish an alternative procedure for satisfying the "certification of need" requirement governing mortgage insurance for hospitals.

Existing law requires that individual states certify the need for such facilities. However, an increasing number of states no longer have the capacity to grant such certification and alternative procedures to state certification are required.

Procedures that would be established by the Committee bill mirror those currently used by states to conduct assessments necessary to grant the certification of need. These assessments will have the same usefulness as certification.

Release of Pool Funds.—The Committee bill would direct HUD to implement the "DeWilde Pool" agreements signed in 1974 with several state and local agencies. These agreements are contractually binding and have been relied upon by the affected agencies for their programs. About $7 million remains in the "pool" for this purpose.

The HUD and Independent Agencies Subcommittee Report (Report 99-487 accompanying the HUD and Independent Agency Appropriations Bill of 1987, H.R. 5313) to fund state agency directs that "pool" funds for mortgage increases and supplements for Rental Assistance Payments be used within 45 days of application. Despite this instruction, HUD has continued to withhold release of "pool" funds. The Committee intends that these funds be released without further delay.

The Committee bill would give eligible state and local agencies 18 months to apply for their portion and then would rescind any remaining funds. The planned use of these funds will provide benefits to the tenants who are most in need of rent assistance.

HUD is directed to release the subsidy for interest reductions on housing programs, including rental assistance payments. The pool funds are reserved for projects pursuant to agreements arrived at after years of negotiation between HUD and state and city agencies. HUD agreed to establish a pool of contract authority to provide increased assistance to state projects in exchange for the states agreement not to apply for further subsidy increases. The states were given broad latitude to allocate the pool funds and have been using the funds for a wide variety of purposes, including rent assistance.

The Committee intends that these funds be made available promptly for such purposes as supplementing rent and rental assistance payments, for meeting the 10 percent match for RAP mortgage increases, for covering section 236 non-insured mortgage increases, for covering second mortgage applications, for providing additinal 236 subsidies inpartially assisted projects, for covering potential mortgage term extensions and for covering operating losses.

Increase in Authority to Insure Adjustable Rate Single Family Mortgages.—The Committee bill would allow FHA the flexibility to respond a potential increase in demand for ARMs, a likely event if interest rates were to rise.

The FHA-ARMs is a consumer-orientated product, the demand for which varies with the prevailing interest rates. While the current ARMs activity has decreased in response to lower interest rates, this mortgage instrument will regain its popularity if interest rates rise.

Congress established the 10% ARM's cap in 1983 because ARMs were a new, relatively untested type of mortgage. Since the cap limits the maximum number of ARMs that can be insured and does not create a specific "set aside", increasing the cap would not limit the number of fixed rate loans available.

Since 1983, the marketplace has developed its understanding of ARMs. The FHA-ARM limits interest rate increases to 1 percent annually and 5 percent cap over the lifetime of the loan. The extreme payment increases that shocked some borrowers when the

ARMs instrument was first introduced are avoided under current FHA regulations.

The ARMS activity of FHA has been limited in recent years—382 mortgages in 1985 and 6,181 mortgages in 1986. These figures represent a vary small percentage of the mortgages insured during those years.

Limitation on Certain Secondary Morgage Market Fees.—The Committee bill would prevent imposition of user fees on the activities of government-sponsored secondary mortgage market agencies.

Federal National Mortagage Association (Fannie Mae): the bill would prohibit the federal government from imposing any fee except those the Federal Reserve Banks now charge for acting as fiscal agents.

Government National Mortgage Association (Ginnie Mae): the bill would limit to no more than 6 basis points the guarantee fee that Ginnie Mae may charge lenders with regard to the timely payment of principal and interest on securities backed by one- to four-family FHA-insured and VA-guaranteed mortgages. Fees on other guarantees would not be permitted to exceed levels needed for actuarial soundness. Fees for commitments or administrative expenses would not be permitted for the purpose of allocating scarce guarantee authority to the highest bidder on an auction basis. Fees would remain at the levels in place on September 1, 1985, unless an increase is needed to cover administrative costs.

Federal Home Loan Mortgage Corporation (Freddie Mac): the bill would prohibit the federal government from imposing any fee except those the Federal Reserve Banks now charge for acting as fiscal agents.

The Committee has considered the numerous proposals put forward by the Administration in recent years to impose "user fees" on the activities of federal credit agencies. The principal purpose of such proposals has been to reduce the role of federal credit agencies by making it more costly for individuals and financial institutions to use their services. The Committee notes that Congress has firmly and consistently rejected these proposals. The Committee reaffirms its opposition to these proposed taxes on home ownership as particularly inappropriate at a time when the rate of home ownership is declining. The bill would ensure that only fees related to the projected cost of administration would be imposed on activities that support an efficient national system of home mortgage finance.

The Committee bill reaffirms that the executive branch does not have the power unilaterally to adjust fees without first certifying that the change is reasonably related to the cost of administering a program or providing a service.

With respect to Ginnie Mae, the Committee does not intend for Ginnie Mae (1) to set fees as a way of manipulating federal credit policy, (2) to set fees based on those charged by private firms for similar services or guarantees, or (3) to shrink the role of Ginnie Mae (and thereby FHA and VA) in the nation's home finance market.

The bill would also require Ginnie Mae to set the guarantee fees for securities or notes backed by other FHA-insured and VA-guar-

anteed mortgages at a level sufficient to meet anticipated claims based upon a thorough actuarial analysis, and for no other purpose. A thorough actuarial analysis, similar to those conducted by other firms in the housing industry, would evaluate the potential for claims based on both actual experience and on factors such as economic and demographic conditions that directly affect their programs.

The Committee's intent is not to hamstring Ginnie Mae's prudent business judgment, but rather to require the Association to consider and document thoroughly the need for increases that are reasonably related to the costs of the program. It is also to require Ginnie Mae to notify Congress 90 days before acting on any conclusions that may be derived from their analysis.

The Committee understands the need for Ginnie Mae to levy added charges in the event of non-conforming behavior by issuers (for example, in the event an issuer defaults in his payment obligation to security holders or misses deadlines in submitting documents).

The Committee recognizes that Ginnie Mae has adequate authority to pursue remedies and impose charges in the event its rules and regulations are not adhered to. The Committee does not intend to restrict Ginnie Mae from imposing charges in particular instances to encourage compliance and orderly and efficient behavior by issuers, so long as all of the fees and charges as a whole are related to program costs.

The bill also addresses the question of fees on new programs Ginnie Mae may wish to implement. If Ginnie Mae were to offer a new mortgage-backed security or other program or service, this legislation would restrict it from establishing fees greater than those charged for existing programs or services unless the cost basis for such increased fees were set forth and reasonably related to program costs. In any event, the guarantee fee for new programs would be bound by the restrictions contained in paragraphs A and B of Section 306(g)(3) of the Federal National Mortgage Association Charter Act as amended by this bill.

The bill is not intended to complicate Ginnie Mae's business relationships with outside vendors in providing services. At the same time, the bill does ensure that any fees and charges levied by Ginnie Mae are reasonably related to the costs of the services, whether the services are provided by Ginnie Mae or an outside vendor working for or with Ginnie Mae in the adminstration of the program. The Committee does not intend for Ginnie Mae to use private vendors to impose fees or charges not reasonably related to the cost of the services rendered.

FNMA Cumulative Voting.—The Committee bill would allow Fannie Mae shareholders to choose how their votes for members of the Board will be counted. The FNMA Charter Act now requires cumulative voting, under which a share entitles the shareholder to cast one vote for each open seat and permits a shareholder to award all to one candidate. When FNMA was originally chartered, cumulative voting was the accepted method for electing members of corporate boards. It has since been criticized for permitting a relatively small number of large shareholders to exert disproportionate influence in board elections.

Many corporations have recently shifted to other voting methods, such as straight voting or one share, one vote per vacancy. Under this method a share entitles the holder to vote for a separate candidate for each open seat. That is the voting method sanctioned by the laws of more than two-thirds of the States and used by approximately 75% of the firms listed on the New York Stock Exchange.

The Committee believes that it is in the public interest that control of FNMA remain broadly dispersed. The Committee bill would ensure that any change in Fannie Mae's method of voting would be made only with the concurrence of the Board and the holders of a majority of all common stock voting.

Mortgage Insurance Program Loss Reduction.—The Committee bill would require the HUD Secretary to take appropriate administrative action to reduce losses on mortgage insurance programs.

Lenders would be required to provide HUD with the taxpayer identification numbers of borrowers. HUD would have to ensure that the identification number is used only to enforce the requirements of this section.

Lenders with a higher than normal rate of default and claims would have to explain the reason and submit a plan for corrective action. HUD would have to review annually the rate of early defaults.

The Committee believes that current procedures are insufficient deterrents to fraud and abuse. The bill would encourage HUD, when there is reasonable suspicion, to review the financial records of the lenders and tighten enforcement.

Mortgages on Hawaiian Homelands and Indian Lands.—The Committee bill would transfer insurance of mortgages on Hawaiian homelands and Indian lands to the General Insurance Fund from the Mutual Mortgage Insurance Fund. It would also amend the act to ensure that every native Hawaiian can pass on any property financed with FHA mortgage insurance to a child or surviving spouse.

The General Insurance Fund is reserved for those programs that are considered high risk. Since the Hawaiian and Indian mortgage insurance programs may involve higher risk than most programs in the Mutual Mortgage Insurance Fund, the Committee agreed that they are more appropriately managed under the General Insurance Fund. Currently, the Hawaiian program has statutory authority in both funds. This change is intended to streamline administration of the Hawaiian Homelands Program.

The bill would also ensure that every native Hawaiian who owns an FHA property will be able to pass on ownership of that property to a child or surviving spouse, even if the child or spouse do not meet the statutory definition of native Hawaiian. Under existing law, if a native Hawaiian with an FHA-insured mortgage dies, he or she cannot pass that property on to a child or surviving spouse unless they had at least 50 percent "Hawaiian blood". The Committee intends to allow such property to remain in the family should the property owner die.

FHA Title I Regulations.—The Committee bill would give applicants for FHA insurance on property improvement and manufactured home loans the option of complying either with regulations in effect prior to January 15, 1986 or regulations published on Oc-

tober 25, 1985 to take effect on January 15, 1986. The bill would permit the new rule to take full effect on January 1, 1988. In the interim, HUD shall reopen the new rule for public comment and account for the comments received.

When HUD revised the Title I regulations, many participating lenders felt they had not been given sufficient time to review and comment on the proposed changes. When lenders did review the new rule, many found the new regulations unworkable and protested that the proposed underwriting procedures would be inappropriate for home improvement lending. More recently, HUD stated that they would accept comment and make the necessary changes.

The Committee believes this provision is necessary to ensure that HUD fulfills its comitment.

Home Equity Conversion (HEC) Mortgage Insurance Demonstration.—The Committee bill would authorize a five-year demonstration program to expand the availability home equity conversion mortgages for elderly homeowners.

Home equity conversion mortgages work in reverse of conventional mortgages. They permit a home to be mortgaged to a lending institution in exchange for a stream of cash that is to be paid back at a future date either through a lump sum payment or through transfer of ownership of the home to the lender. HEC's enable established homeowners to convert accumulated home equity into a stream of income. They can be a useful financial solution for people who are "house rich, but cash poor". Elderly homeowners often need increased liquidity of assets but are not in a position to sell their homes. There have been very few HEC mortgages issued since their conception because leaders are reluctant to use a mechanism on which there is so little statistical basis for estimating the risks.

This demonstration program would encourage banks and borrowers to use HEC's by insuring a lender against default in the event a borrower refuses to move out or sell the home. It would also provide safeguards to the borrower such as full bank disclosure, information on options and risks of the loan, and an annual statement. The demonstration will give insurance authority for 2,500 mortgages up to $67,500 in non-high cost areas, and $90,000 in high cost areas, through September 30, 1991.

Authority to Purchase Second Mortgages.—The Committee bill could permanently extend the authority of Fannie Mae and Freddie Mac to purchase second mortgages for home purchase on improvement, which would otherwise expire on October 1, 1987.

The Secondary Mortgage Market Enhancement Act of 1984 provided this authority on a three year basis to test the benefits of enhancing the secondary market in second mortgages. This program has increased the liquidity of second mortgages and lowered second mortgage interest rates by an estimated 300-400 basis points.

The Committee believes the permanent extension of Fannie Mae and Freddie Mac's second mortgage purchasing authority would permit the secondary market in these mortgages to develop in an orderly way and thus provide benefits to homebuyers who want to purchase or improve a home.

Repeal of Section 244(c).—The bill would repeal section 244(c) of the National Housing Act. Section 244 of the Act establishes

HUD's coinsurance authority. Section 244(c) makes use of the coinsurance authority contingent upon the Secretary's determination that the "demonstration program" of coinsurance will not disrupt the mortgage market or reduce the availability of mortgage credit to borrowers who depend on FHA insurance.

The Committee finds that section 244(c) is obsolete and should be repealed to avoid confusion. Coinsurance is noe a permanent HUD program, rendering the reference in Section 244(c) to a "demonstration program" misleading, In addition, the legislative history of this provison indicates that the required determinations were threshold requirements for the implementation of the coinsurance program. Those determinations, therefore, have already been made. The contingent language is now superfluous.

Repeal of Prototype Housing Costs Publication.—The Committee bill would repeal the requirement that HUD prepare and publish on an annual basis prototype housing costs for one- to four-family dwelling units for each of the approximately 650 housing market areas in the United States. The Committee finds that continued publication of these costs would serve no public purpose since (a) the cost figures are not used in the operation of any HUD program and (b) the Committee has received no indication from the general public or any public or private entity that the information provided in these publications is useful.

Credit Limit.—The Committee bill would limit new credit authority to amounts approved in appropriation Acts. This limitation is required by the Congressional Budget and Impoundment Control Act as amended.

SUBTITLE C.—COMMUNITY AND NEIGHBORHOOD DEVELOPMENT AND CONSERVATION PROGRAMS

City and County Classification.—The Committee bill would phase out the entitlement status of certain communities that no longer meet the eligibility criteria of the Community Development Block Grant program.

A metropolitan city or urban county which loses its entitlement program after fiscal year 1989 would retain that classification for 3 more years. In the third year its grant under the entitlement program would be cut by 50 percent. The remaining 50 percent would be added to the State's allocation for the small city Community Development Block Grant program. The city or county would continue to be eligible to receive funds from the State's allocation. This provision would enable communities losing their entitlement status to adjust to the change in an orderly fashion.

The bill also gives a city that becomes newly classified as a "metropolitan city" the option of deferring such classification if it elects to have its population included in an urban county.

The Committee bill would define the entire non-metropolitan area of a state as the area to be used in determining low- and moderate-income for targeting benefits of Community Development Block Grants (CDBG) provided through the state. The bill would expand the definition of eligible CDBG activities to include loans as well as grants.

The bill would also amend the section which permits CDBG funds to be used for the development of energy-use strategies. The relevant section—section 105(a)(16) of the 1974 Act—contains a detailed list of eligible activities and was originally intended to encourage recipients to develop a strategy aimed at reducing energy consumption. The Committee believes that the detailed listing of the section is now obsolete since the energy conservation strategies implemented by recipients have been completed. The Committee bill would, therefore, amend the statute to focus upon current energy issues and priorities, such as the relation of energy conservation to waste management and district heating and cooling systems. As a further amendment designed to update the law, the Committee would replace the requirement that activities be "necessary to the development of a comprehensive, community-wide energy-use strategy" with the requirement that activities be "necessary to the development of energy use strategies related to a recipient's development goals, to assure that those goals are achieved with maximum energy efficiency."

Urban Development Action Grant Program.—The Committee bill would authorize UDAG at "$225,000,000 for each of the fiscal years 1988 and 1989."

The selection criteria for awarding grants would be modified so that:

65 percent of the funds would be awarded on the basis of a city's distress and economic impaction as well as the project measures; and

35 percent of the funds would be awarded on project measures alone.

The Committee bill would refine the project quality criteria. The new system would add points for the degree to which a project helps relieve economic distress in a distressed community by: bringing new capital into the local economy, improving housing or employment in a city's more distressed neighborhoods, or retaining jobs.

The Committee bill would also award bonus points to cities that have not received a grant recently. (One extra point for cities that have not received a grant in one year, and two extra points for cities that have not received a grant in two years.) Cities would also be permitted to retain any UDAG funds that are repaid by a project if the city (1) has a plan for re-using the funds in compliance with the Community Development Act, and (2) provides an audited annual report of the re-use.

The Committee intends that the provisions in this section will give all eligible cities a fair chance to receive a UDAG. The Committee believes that by placing more emphasis on distress (and less on impaction) the new criteria would be fairer to those cities that do not have large proportions of pre-1940 housing.

The Committee's basic objectives are to give all eligible cities a reasonable chance to receive a UDAG, give all developers the incentive to put together the most favorable deal for the city, and retain important characteristics of UDAG such as targeting and a national competition.

Prohibition on Use of UDAG for Business Relocation.—The Committee bill would incorporate in the statute HUD's current policy

(issued in a January 9, 1985 policy directive) that prohibits a UDAG grant from being used to relocate a business from one state or region to another.

The language in existing law would be applied to "Speculative Projects" (those that do not have identified occupants). The bill would provide a more stringent test for projects whose occupants are identifiable. For these projects, the bill would prohibit UDAG funds from being used to relocate a plant or facility from one UDAG city to another or to expand an operation in one city that would lead to a reduction in another city.

The Committee believes that this is necessary to ensure that UDAG funds are used to improve the aggregate condition of the nation's economically distressed cities and not to improve the economy of one distresed area at the expense of another.

Community Development Block Grants (CDBG).—This section would extend the Community Development Block Grant program through fiscal year 1989 at "$3,000,000,000 for each of the fiscal years 1987, 1988, 1989." The CDBG provides formula assistance to states and entitlement cities. It provides localities with an important source of funding for development activities that primarily benefit low-income residents, such as housing, economic development, and infrastructure development. CDBG incurred a 34% cut in real terms between fiscal 1981 and fiscal 1987.

Urban Homesteading.—The Committee bill would extend authorization for the Urban Homesteading program at "$12,000,000 for each of fiscal years 1987, 1988 and 1989."

The bill would also permit states taking title to federally-owned (VA, Farmers Home, HUD) properties in the Urban Homesteading program to use a portion of their State CDBG funds for administrative expenses incurred in support of homesteading in non-metropolitan areas. The Committee intends to allow states to spend this money on general statewide planning efforts to implement the Urban Homesteading program. The Committee has found that states differ from cities in their need for a planning effort due to the size of the area and varying community characteristics that need to be considered.

The bill would provide for a less cumbersome process for selecting homesteading families, while giving priority to lower income families. Applicants would get special priority in the selection process if their household income fell below 80 percent of the area median. Under present law, agencies must give special priority to families who: (a) pay more than 30 percent of their adjusted income for rent, (b) are living in substandard conditions including overcrowding, and (c) have little prospect of improving their housing conditions except through homesteading. These criteria are vague and difficult to administer. The Committee's proposed change would allow for a more equitable and targeted selection process.

This bill would extend two demonstration programs that have been successful: 810(h) which allows the use of multi-family properties in the Urban Homesteading Program, and 810(i), which allows for up to $1,000,000 of the program allocation to be used for assistance to local communities for a homestead program with properties acquired locally through tax liens.

Section 312 Fees.—This section would prohibit risk premiums or loan fees under the section 312 Rehabilitation Loan Program. The 312 Rehabilitation Loan Program is valuable to many local communities. It is used for rehabilitation of single and multi-family residential properties and non-residential properties. OMB had proposed a 1 percent risk premium and $200 loan fee for any 312 loans. The Committee believes that these measures would needlessly increase costs for lower income borrowers and therefore undermine efforts to preserve the nation's stock of affordable housing.

Neighborhood Reinvestment Corporation (NRC).—The Committee bill would authorize funding for the Neighborhood Reinvestment Corporation through fiscal year 1989 at $19,000,000. The Neighborhood Reinvestment Corporation is a public, non-profit corporation created by Congress to address urban housing problems by promoting private investment, supporting neighborhood self-help programs, and providing financial assistance to local organizations.

The Committee would expand eligibility for membership on the NRC Board. Existing law gives ex-officio membership on the board to the heads of several key agencies although they are often too busy to serve. The bill would permit some other member of each agency's board to serve.

In reauthorizing appropriations for the Neighborhood Reinvestment Corporation, the Committee has taken note of the progress made on the mutual housing demonstraiton, and anticipates that the experience being gained from it will contribute to development of future housing policy.

Neighborhood Development Demonstration Program.—The bill would authorize the Neighborhood Development Demonstration Program through fiscal year 1989 at "such sums as may be necessary." This program provides grants on a competitive basis to community based, non-profit organizations for economic development, housing improvements, and social services. There are 38 projects currently operating throughout the country.

SUBTITLE D.—MISCELLANEOUS PROGRAM AMENDMENTS

Studies under the National Flood Insurance Program.—The Committee bill would authorize food studies under the national Flood Insurance Program at $37,000,000 for each of the fiscal years 1988 and 1989. These studies are conducted by the Federal Emergency Management Agency (FEMA) and are used to establish a community's flood liability exposure and set flood insurance premiums.

Collection of Data.—The Committee bill would require the Secretaries of HUD and Agriculture to collect data on the racial and ethnic characteristics of individuals participating in housing programs administered by their departments. The bill would require an evaluation of the data to be submitted to Congress in each department's annual report.

Prior to 1981, the Departments of HUD and Agriculture collected this data to help ensure compliance with the appropriate laws prohibiting discriminatory practices in housing programs. Under the Paperwork Reduction Act of 1980, OMB terminated the data collection as part of a government-wide effort to reduce the availability of information on the impact of federal activities.

Solar Energy and Energy Conservation Bank.—The Committee bill would authorize the Solar Energy and Energy Conservation Bank through fiscal year 1989 at "such sums as may be necessary." The Committee supports continuation of this program, which provides loan subsidies and grants through State agencies to finance a wide range of energy conservation and solar energy activities in residential, commercial, and agricultural buildings. The Committee notes that three-fourths of the funds awarded to date have gone to lower income families which have benefitted from energy cost savings through energy conservation.

Research Authorization.—The Committee bill would authorize HUD research and development programs at $17,000,000 for each of the fiscal years 1988 and 1989.

TITLE II.—HOUSING ASSISTANCE

SUBTITLE A.—PROGRAMS UNDER UNITED STATES HOUSING ACT OF 1937

Lower Income Housing Authorization.—The Committee bill would authorize lower income housing assistance programs at $7,510,000,000 for each of the fiscal years 1988 and 1989. Recaptured funding for public housing development, comprehensive improvement assistance, or Indian housing would have to be reused for these programs and any amount available for the conversion of a project to Section 8, if not required for such purpose, shall be used for Section 8 existing housing assistance.

Section 8 Assistance.—The Committee bill would require 15-year terms for contracts between HUD and public housing authorities under Section 8 existing housing certificates. Under current law, HUD can enter into these contracts for terms of not less than 1 month or more than 15 years. These contracts had typically been renewed in 5 year increments, but HUD has more recently tried to adopt terms of less than 5 years. Such short contract terms would exacerbate the expiration of assisted housing, which will shortly become a severe problem. The Committee believes a 15 year contract period could help ensure a stable level of housing assistance for low-income people.

The Committee bill would increase to 8.5 percent the administrative fees currently paid to public housing authorities to administer the Section 8 Program. HUD lowered these fees from 8.5 percent to 7.65 percent on January 1, 1985, and has threatened to lower them further. The Committee feels that the reduction was unjustified and hampers sound management of the nation's low-income public housing.

The Committee would require HUD to adjust the Section 8 fair market rental rates by October 1 of each year. HUD has not adjusted the rent rates in a timely manner, falling as much as 18 months behind in setting the rates. This has made it harder for lower income tenants to find decent and affordable housing in the private market. The Committee intends that HUD use the most current data available, projected forward, to set fair market rental rates.

Operating subsidies.—The Committee bill would authorize operating subsidies to close the gap between the revenues of public housing authorities, which are limited by federal law, and the costs of operating public housing projects. The authorized level of

$1,600,000,000 for each of the fiscal years 1988 and 1989 reflects the most reliable estimates of the actual need.

Income eligibility for assisted housing.—The Committee bill would require HUD to apply the national goal of targeting 95 percent of housing assistance to very low income people, to all housing programs in the aggregate rather than rigidly on a program-by-program or project-by-project basis. The Committee feels this will give HUD the discretion to apply differing percentages for separate programs as appropriate. The Committee fully expects that public housing agencies and other owners will make reasonable efforts to find potential tenants with very low incomes and will not by-pass prospective tenants with very low incomes in order to serve those with higher incomes if eligible households with very low incomes are awaiting admission.

Rental rehabilitation and development grant.—The Committee bill would authorize appropriations for the Rental Rehabilitation Grants and Housing Development Grants programs at $320,000,000 in budget authority for each of the fiscal years 1988 and 1989. Of that total, $220,000,000 would be allocated to Rental Rehabilitation Grants, and $100,000,000 to the Housing Development Grants annually. The Committee reaffirms its commitment to these programs and therefore has included several reforms to improve their management.

The Committee bill would allow Public Development Authorities located in Seattle, Washington, to be eligible to participate in the Rental Rehabilitation Program as they are in other HUD programs.

The bill would increase the rehabilitation caps, which are now $5,000 per unit. The new caps would be $7,500 for up to two bedroom units and $8,500 for three or more bedroom units to accommodate larger units. Although the average per unit cost of the Rental Rehabilitation program is expected to remain close to $4,600, the bill would respond to the need for rehabilitation of apartments for larger families. The Committee believes that the limitation of federal assistance to 50 percent of the cost of rehabilitation will effectively control program costs. Developers will have strong incentives to hold down those costs because at least half must be financed with borrowing that must be repaid from the moderate rents that can be charged in neighborhoods in which the program operates.

The Committee bill would allow states to use CDBG funds for the administration of the rental rehabilitation program in rural areas.

The Committee bill would ease the income targeting restrictions of the Section 8, Existing Housing Program, to allow use of vouchers or certificates to avoid the displacement of lower income people by rental rehabilitation.

The Committee bill would amend the Housing Development Grant (HoDAG) statute to give an owner the option of calculating the rents of low income apartments based on either the most recent estimate of area median income or the estimate that was in effect when the HoDAG application was submitted. That change is intended to prevent reductions in HUD's estimate of an area's median income from making HoDAG projects unworkable after projects owners have entered the program in good faith.

Preventing fraud and abuse in Housing and Urban Development Programs.—The Committee bill would allow HUD to obtain the social security number or employer number and a signed consent form from program participants to determine their eligibility. This information would permit HUD to verify current wage and benefit information and avoid fraud and abuse. Provisions have been included to prevent the release of this information to unauthorized individuals.

The Committee believes that applicants and tenants who are adversely affected by violations of these statutory provisions should have a cause of action to enforce the statute in Federal Court. In the past, such causes of action were not explicitly specified in the statute because program beneficiaries were thought to be able to protect their interest under the Administrative Procedure Act, Section 1983 and the implied cause of action doctrine. Because the courts have been somewhat unreceptive to private causes of action, the Committee bill would make this one explicit. This change in law is not intended to weaken any rights of program beneficiaries to enforce their benefits previously or in the future.

Public Housing Resident Management.—The Committee bill would allow residents of a public housing project, defined to include contiguous buildings and row house areas, to form resident management corporations for the purpose of managing their project. Resident management corporations would be required to obtain fidelity bonding or equivalent protection and to be audited annually.

The resident management corporation would be permitted to retain revenues in excess of costs. Such excess revenues could be used only to improve the management and operation of the project, to establish business enterprises that employ public housing residents and to acquire additional units for low income housing.

During the fiscal year 1987, not more than $1.5 million ($100,000 per project) would be made available from the Comprehensive Improvement Assistance Program for technical assistance for resident management corporations.

Public Housing Ownership Opportunities.—The Committee bill would establish, on a demonstration basis, a way for public housing residents to own their project through a resident management corporation. The Committee firmly rejects the use of resident ownership as a means to get the federal government out of responsibility for public housing.

This new section would permit low income families living in certain resident-managed projects to purchase their units. To be eligible for ownership, a resident management corporation would have to demonstrate, over a period of not less than three years, the full capacity to manage the project effectively and efficiently. Such capacity would have to include the utilization of generally accepted financial control and accounting methods, personnel procedures, and operating procedures.

Units that are purchased would have to meet minimum safety and livability standards and may be re-sold only to low income families. Tenants not wishing to purchase their units may not be evicted by reason of such sales and may choose to continue to reside in their units or move to other assisted housing. The Com-

mittee wishes to emphasize that this choice lies with the tenant, not with the public housing authority, resident management corporation or Secretary. Tenants may enforce these rights under the Administrative Procedure Act, Section 1983 and the implied cause of action doctrine.

The Committee views this ownership program as a demonstration only and expects that the Secretary will conduct a thorough analysis of the impact of any change in ownership upon those in need of assisted housing. The Committee further expects that all public housing sold under this demonstration will be replaced with comparable units if justified by the local supply of lower income housing.

Limitation on public housing development and assurance of public housing quality standards.—The Committee bill would limit public housing development funds to those public housing agencies that (1) must complete dwelling units already obligated, (2) have at least 85 percent of their units up to HUD quality standards, (3) will use the funds to replace units lost through sale to tenants or unit redesign. Notwithstanding other provisions of law, up to 20 percent of funds appropriated for development could be committed by HUD for reconstruction or redevelopment of existing public housing projects, (4) need additional units to comply with court orders or directions of the Secretary or (5) certify they have unmet demands for family housing that they plan to meet with construction or acquisition of not more than 100 units.

Comprehensive Grants.—The Committee bill would encourage HUD to develop a proposal to reform the Comprehensive Improvement Assistance Program using comprehensive grants. The current program has not provided public housing with the modernization funds needed to improve their projects in a predictable way. This has made it difficult for public housing agencies to plan renovation and has increased the cost of the needed improvements. The Committee believes that HUD should complete its present studies on the current condition and future needs of public housing and submit the findings to Congress within one year of the enactment of this bill. The Committee intends for the Secretary to submit alternative proposals to reform the current program after he has consulted with interested housing groups. The Committee expects the Administration to consider the recommendations of these housing groups and use their expertise so that the alternative proposals will address all the needs of public housing residents.

SUBTITLE B.—OTHER HOUSING ASSISTANCE PROGRAMS

Nondiscrimination Against Section 8 Certificate Holders.—The Committee bill would prohibit owners of subsidized housing from refusing unreasonably to lease a qualifying and available unit to a holder of a Section 8 certificate or voucher solely because the prospective tenant is the holder of a certificate or voucher. The Committee intends to eliminate abuses that have been reported.

Housing for the Elderly and Handicapped.—The Committee bill would authorize the extension of the program for a two year period and allow additional flexibility in adjusting Section 202 loan interest in periods of low market interest rates. This change would not

alter long-term federal costs but is needed to make Section 202 development feasible when market interest rates fall below 9.25 percent.

Housing for the Handicapped.—The Committee bill would correct a serious problem for developers of small group homes by establishing new requirements appropriate to such small projects. Currently, small group homes (usually single family homes) must meet requirements designed for large multifamily projects. This often increases costs unreasonably and renders small projects financially less feasible.

The minimum 15 percent set aside for non-elderly handicapped housing would be used for the special needs of the physically impaired, the developmentally disabled and the chronically mentally ill. While HUD has slightly exceeded the proposed 15 percent minimum for handicapped housing during the last two years, the level of funding was not as high in earlier years.

"Section 235" Homeownership Program.—The Committee bill would allow the continued obligation of previously appropriated funds by extending the program to September 30, 1989. Although the appropriation of additional funds would not be authorized, the Committee intends to permit the obligation of funds available from earlier appropriations.

Congregate Services.—The Committee bill would authorize $7 million for fiscal year 1988 and $13 million for fiscal year 1989, with up to $2 million of the fiscal 1989 funds being made available for a study of the need for congregate services.

The Congregate Housing Services Program is a demonstration program providing in-home community-based supportive services (e.g., food, housekeeping and other personal assistance essential to maintain semi-independent living) to frail elderly persons in order to prevent premature institutionalization. It complements other community services available to elderly people.

Provision of in-home services can extend the period in which an individual remains at home before institutionalization, thereby improving the elderly person's quality of life and achieving a cost savings. The Congregate Services program costs about $207 per month per person. Taking housing costs into account, the cost of living at home with the aid of congregate services is estimated to be about $880 per month for a typical elderly person. These costs compare very favorably with the costs of institutionalization which are conservatively estimated to be about $1,116 per month per person for public assisted nursing facilities.

Under this program, HUD extends multi-year grants (for 3 to 5 years) to eligible public housing agencies and nonprofit Section 202 sponsors for meals and other support services to frail elderly and nonelderly handicapped residents. Through the end of fiscal year 1986, almost $30 million had been obligated to grantees.

Sixty-two grants have been made, serving approximately 2,100 residents on a regular basis. Since the need is much greater, the Committee intends to provide a modest, orderly expansion of the program, doubling the number of people served over a two year period.

The Committee anticipates that the proposed report to Congress would help make the program even more cost effective by suggest-

ing ways in which (1) the program could be tailored more carefully to specific nonmedical needs of frail elderly persons and (2) state and local participation in the program could be expanded.

Tenant Eligibility Determinations in Rent Supplement Projects.—The Committee bill would eliminate the statutory language requiring HUD to issue Rent Supplement certificates upon request of a project owner. The Committee believes that elimination of this requirement is consistent with the general approach to tenant selection currently used in the Rent Supplement program, under which project owners have primary responsibility for making tenant selection decisions in accordance with HUD eligibility criteria and procedures. The Committee also believes that the effect of this change on prospective tenants will be minimal. With few exceptions, project owners have been making tenant selection decisions without Rent Supplement certificates since 1972. Finally, the Committee believes that this change would make eligibility determinations under the Rent Supplement program consistent with the Section 8 and Public Housing programs and would relieve HUD of the burden of issuing certificates in those few instances in which they are requested.

The Committee bill would amend Section 101(k)—requiring the project owner to give "preference" to applicants in certain categories and adding an additional category of individuals or families with significant rent burdens—to make the section consistent with the current provisions of Section 101(e) as well as analogous provisions contained in other assisted housing sections.

Title III.—Rural Housing

Program authorizations.—The Committee Bill would authorize a freeze in spending for rural housing programs during fiscal years 1988 and 1989. The Secretary's authority to make loans and grants under existing programs would be limited to the amounts approved in appropriation acts in fiscal year 1987.

In authorizing spending levels for rural housing programs for fiscal years 1988 and 1989, the Committee recognized the need for holding spending down while providing continuity in implementing national housing policy in the nation's rural areas. The Committee's recommendations take account of the fact that the rural areas continue to have a disproportionate share of the nation's ill-housed families and a continuing shortage of mortgage of mortgage credit for low and moderate income families.

Rural Area Classification.—The Committee bill would grandfather, through fiscal year 1989, small towns which (a) have outgrown the definition of "rural' (having more than 20,000 persons) since the 1980 Census and (b) continue to have a serious shortage of mortgage credit for low and moderate income families, enabling them to continue to be eligible for housing assistance from the Farmers Home Administration (FmHA).

Manufactured Housing.—The Committee bill would require that FmHA loans to purchase a manufactured home have the same loan repayment period as a mortgage made for a traditional site-built home under HUD's Title 2 FHA program. The amendment would assure equal treatment for homebuyers who purchase a manufac-

tured home which satisfies (a) HUD's safety standards under Title VI of the Housing and Community Development Act of 1974; (b) HUD site requirements under Title II of the National Housing Act; and (c) FmHA energy conservation requirements.

Definition of Very Low Income.—The bill would revise the definition of very low income presently used by FmHA in determining eligibility for participation in its rural housing programs. The present definition limits eligibility to those families whose income does not exceed 50% of the median family income in the area, generally defined as the county. The revised definition would include those families whose income did not exceed 50% of the median family income in all non-metropolitan areas in the State.

The amendment would enable FmHA to serve families in counties that have a very low median income by increasing eligibility to the state-wide median for rural areas. The FmHA program would, under this section, be better able to serve all parts of the nation, particularly in the South and Southwest.

Loan Packaging by Nonprofit Organizations.—The bill would authorize the Secretary to include the cost of consulting services in a mortgage loan made to a private, tax-exempt nonprofit applicant or public body.

Nonprofit sponsors of assisted housing in rural areas have relied on national nonprofit organizations for consulting help in developing applications for housing assistance from the Farmers Home Administration. The costs of providing consulting services have, in the past, been defrayed by foundations and other support. Changes in the economy and in the tax code appear to have reduced such support. The Committee believes that such costs of an approved, tax-exempt non-profit sponsor or public body should be an eligible development cost to be included in the mortgage loan made by FmHA.

Escrowing Taxes and Insurance.—The bill would require FmHA to implement a system for escrowing taxes, insurance and other necessary expenses incurred by FmHA assisted homebuyers. Payments into escrow accounts would not be considered public funds, and FmHA would have authority to direct disbursements of escrows and make advances to pay escrowed expenses if necessary.

The Committee believes that a system of escrowing would be cost-beneficial. Regular prepayment of expenses such as taxes and insurance by homeowners through escrows would serve to reduce the threat of foreclosures resulting from the inability of many lower income families to make large payments at the end of the calendar year.

Conformance with Low Income Housing Tax Credit Eligibility Criteria.—This section would amend the Section 515 rural rental program to conform tenant income eligibility requirements to those contained in section 42 of the Internal Revenue Code as amended in 1986. The amendment would provide a waiver to the conformance requirement when the Secretary determines that a vacancy of at least six months duration, resulting from the failure to place a qualified tenant, threatens the financial viability of the project.

In providing for a waiver, the Committee expects the Secretary to use it only when there is a clear threat of project insolvency, and after the owner has certified that every practicable effort has

been made to locate and place a tenant in the vacant unit whose income meets the requirements of the tax credit provision in the vacant unit. It is intended that such vacancies shall be made known to public and private agencies which assist lower income families, and shall be offered to qualified tenants who are on waiting lists for housing assistance in the area.

TITLE IV.—FAIR HOUSING DEMONSTRATION

Fair housing initiatives program demonstration.—Title IV of the bill would authorize the Fair Housing Initiatives Program to demonstrate methods of expanding housing opportunities for all Americans through public education and enforcement of Title VIII of the Civil Rights Act of 1968. Under the program, the Secretary of HUD would enter into contracts or cooperative agreements with public and private entities for activities that would prevent or eliminate discriminatory housing practices.

The demonstration period would continue through the end of fiscal year 1989. The Committee understands that the Secretary, after making provision for public comment, will employ and evaluate guidelines for the funding of testing under the private enforcement initiative that were included in section 602 of the Senate-reported Housing Act of 1986, S. 2507. The committee intends that these guidelines be applied only to activities funded directly under this title.

The Committee expects that the Secretary's evaluation of the testing program will include consultation with private fair housing research experts and the housing industry as well as consideration of various testing methods, particularly those sanctioned by local and state law or the federal courts.

TITLE V.—NEHEMIAH HOUSING OPPORTUNITY GRANTS

The Committee bill would establish the Nehemiah Housing Opportunity Grant program to rebuild neighborhoods in distressed inner cities, promote homeownership, stimulate private sector housing production, and improve the housing quality of families and individuals with modest incomes.

The bill would authorize the Secretary of HUD to make grants to nonprofit corporations providing interest-free, non-amortizing second mortgage loans to low- and moderate-income families in distressed neighborhoods for the purchase of newly constructed or substantially rehabilitated homes. The maximum amount of any loan would be $15,0000 per home. Beneficiaries would have to contribute at least a 10 percent down payment and must not have owned a home in the previous three years prior to purchasing a Nehemiah home.

The Nehemiah program would rebuild distressed neighborhoods and promote homeownership to families who otherwise would not be able to purchase a home. The program would accomplish this through two forms of targeting. First, Nehemiah home development would be restricted to neighborhoods where the median family income is not more than 80 percent of the median income for the area. Second, eligible families could not have an income higher than the greater of 115 percent of median area income or

the national median income for a family of four. The Committee believes that these provisions, taken together, will produce stable neighborhoods with a health economic mix of residents.

The Committee received testimony that stressed this very point. On February 19, 1987, I.D. Robbins, General Manager of the Nehemiah Plan, Brooklyn, New York, stated, "what we tried to do (in Brooklyn) is to get some kind of responsible mix into the community, so we get some leadership in the community, so we have some role models in the community, so that the people are accustomed to having jobs . . . people with jobs, people who have stable family life. . . ."

In addition, the Committee received testimony from Carol Reckling, President of Baltimoreans United in Leadership Development (BUILD), Baltimore, Maryland, who stated, "In the creation of neighborhood(s), . . . you need to maintain a mix of people in a neighborhood. Our experience has been, for example, in the Cherry Hill section of Baltimore, that people want to remain in their neighborhood, and just because you are able to get a better-paying job which has not made you a millionaire, why should you have to leave the community which you have put so many years into building, that your families have built. People do not want to leave their nighborhoods."

In the successful Nehemiah program in Brooklyn, sponsored by the East Brooklyn Churches, 100 percent of the participants are first-time homeowners. The median incomes for participants in New York is approximately $24,000 and 40 percent of the new homeowners come from assisted housing. Of those coming from assisted housing, 25 percent of the Brooklyn participants are from public housing and 15 percent receive Section 8 housing assistance. Families that replace the new Nehemiah homeowners have an average income of $6,500. Thus, the Nehemiah program helps low- and moderate-income families become homeowners for the first time and then makes available housing for other low income individuals and families, including those that are homeless.

Other features of this innovative housing program include:

(1) Creation of a Revolving Loan Fund.—The Secretary of HUD would administer a revolving loan fund, known as the Nehemiah Housing Opportunity Fund. The interest-free, nonamortizing second mortgage would be returned to the trust fund open the sale, lease, or transfer of the home so that other eligible families may benefit from the program. Repayment of the Nehemiah loan would not be required when the first mortgage is refinanced unless there is a sale, lease or other transfer of the property.

(2) Minimum-size Projects.—Nehemiah programs would have to be of sufficient size to create a major impact in the distressed neighborhoods and achieve desired economies of scale. To achieve these goals, each local Nehemiah program would be required to have at least 50 homes in a locality with 20,000 or fewer existing dwelling units, 0.25 percent of the homes in a locality between 20,000 and 100,000 existing dwelling units, or 250 homes in a locality with more than 100,000 existing dwelling units.

(3) Necessary Local Support and Contributions.—Local government approval and local organizational support would be required. Further, in selecting Nehemiah programs, consideration would have to be given to contributions of land and other local or private assistance, such as tax abatements, waivers of fees related to development, waivers of construction, development, or zoning requirements, and direct financial contributions, to help produce the greatest number of homes for the least amount of money. Also, consideration would have to be given to projects located in areas of severe physical and economic blight and which use construction methods that reduce construction costs.

Although the Committee bill does not specify a level of authorization for fiscal years 1988 and 1989 for the Nehemiah program, it is the Committee's intent that funding for this new activity be fully consistent with the Congressional Budget Resolution, which is still completed as this bill is reported.

Section-by-Section Analysis

Title I.—Program Extensions and Amendments

Subtitle A.—General Extension of Programs

Section 101.—Permanent Insurance Authority for FHA

This section would have permanent authority to all FHA insured mortgage programs.

Subsection (a) would repeal each of the provisions of the National Housing Act which extend the FHA insurance only through September 30, 1987.

Subsection (b) would strike out the portion of the amendment to the National Housing Act which extends FHA insurance authority only through September 30, 1987.

Section 102.—Limitation on Flood Insurance Premiums

Subsection (a) would limit increases in flood insurance premium rates to no more than 10 percent annually through fiscal year 1989.

Subsection (b) would extend the emergency implementation portion of the National Flood Insurance Act through fiscal year 1989.

Subsection (c) would extend authority to establish flood risk zones under the National Flood Insurance Act through fiscal year 1989.

Section 103.—Miscellaneous Extensions

Subsection (a) would make permanent the 9.25 percent cap on Section 202 loans for housing for the elderly or handicapped.

Subsection (b) would make permanent the Home Mortgage Disclosure Act (HMDA).

Subsection (c) would extend the Rehabilitation Loan program (Section 312) until September 30, 1989, authorizing use only of whatever funds become available through repayments or other means. No new appropriations would be authorized.

Subsection (d) would extend insurance and loan authority for rural single and multi-family housing programs until September 30, 1989.

Subsection (e) would extend the contract authority for the National Flood Insurance policies through September 30, 1989.

SUBTITLE B.—MORTGAGE INSURANCE AND SECONDARY MORTGAGE MARKET PROGRAMS

Section 121.—Limitation on Federal Housing Administration Insurance Premiums

This section would limit FHA premium charges for insurance on standard, fixed-rate mortgages to 3.8 percent of the principal obligation. Premiums for other FHA mortgages would be limited to no more than 1 percent of the principal mortgage obligation. HUD would be required to notify Congress 90 days prior to any increase in fees, which would be allowed solely to meet anticipated insurance claims and administrative expenses.

Section 122.—Adjustment to Rental Housing Insurance Mortgage Limits Description

Subsections (a) and (b) would increase the FHA multi-family mortgage limits by 30 percent.

Section 123.—Refinancing of Graduated Payment Mortgages

This section would allow homeowners to refinance FHA Section 245 graduated payment mortgages for the total outstanding balance if refinancing would result in a lower monthly mortgage payment.

Section 124.—Refinancing Mortgage Insurance for Hospitals, Nursing Homes, Intermediate Care Facilities, and Board and Care Homes

Subsections (a) and (b) would clarify language in the statute to make not only hospitals eligible, as under existing law, but also nursing homes, intermediate care facilities and board and care homes.

Subsection (c) would require the Secretary of HUD to issue implementing regulations within 90 days following enactment.

Section 125.—Mortgage Insurance for Nursing Homes, Intermediate Care Facilities, and Board and Care Homes

Subsection (a) would make public health care facilities eligible for FHA insurance identical to that currently allowed for privately held facilities.

Subsection (b) would establish the procedures to obtain state assessment of market need and feasibility.

Subsection (c) would require the Secretary of HUD to issue implementing regulations within 90 days of enactment of this Act.

Section 126.—Requirements for State Approval for Mortgage Insurance for Hospitals

Subsection (a) would establish an alternative procedure for satisfying the "certification of need" requirement governing mortgage insurance for hospitals.

Subsection (b) would require the Secretary of HUD to issue implementing regulations within 90 days of enactment of this Act.

Section 127.—Release of Pool Funds

Subsections (a) and (b) would direct HUD to release special funds that have been set aside under written agreements with certain city and state housing authorities under section 236 of the National Housing Act. These pool funds are to be used to strengthen the financial feasibility of state-insured multi-family housing, following agreements entered into between HUD and certain state and local agencies. The affected agencies would have 18 months to apply for release of their funds. Amounts remaining after these applications are funded would be rescinded.

Section 128.—Increase in Authority to Insure Adjustable Rate Single Family Mortgages

Subsection (a) would increase the authority of FHA to insure adjustable rate mortgages (ARMs) from the current 10 percent to a proposed 40 percent of the previous years' volume of insurance.

Subsection (b) would make conforming amendments to accommodate the increase in the FHA ARMs cap.

Section 129.—Limitation on Certain Secondary Market Fees

This section would prevent imposition of user fees on certain government sponsored secondary mortgage market agencies.

Subsection (a)—Federal National Mortgage Association (Fannie Mae): would prohibit the federal government from charging any fee except those that Federal Reserve Banks now charge for acting as fiscal agents.

Subsection (b)—Government National Mortgage Association (Ginnie Mae): would limit fees to 6 basis points on the guarantee of securities backed by one- to four-family FHA and VA mortgages. Fees on other guarantees could be no higher than needed for actuarial soundness. Fees for commitments of administrative expenses could not be charged to allocate scarce guarantee authority to the highest bidder on an auction basis. Fees would remain at the levels in place on September 1, 1985, unless an increase is needed to cover administrative costs.

Subsection (c)—Federal Home Loan Mortgage Corporation (Freddie Mac): would prohibit the federal government from charging any fee except those that the Federal Reserve Banks now charge for acting as fiscal agents.

Section 130.—Fannie Mae Cumulative Voting

This section would amend the FNMA Charter Act to permit the Fannie Mae Board of Directors, with the approval of the voting holders of a majority of Fannie Mae shares, to eliminate the right of cumulative voting in the election of board members. This would

permit FNMA to adopt the straight—or one share, one vote per vacancy—method to ensure that control of Fannie Mae remains broadly dispersed.

Section 131.—Mortgage Insurance Program Loss Reduction

Subsection (a) would require the HUD Secretary to take appropriate administrative action to reduce losses on mortgage insurance programs.

Subsection (b) would authorize the Secretary of HUD to require that mortgagees and lenders disclose to HUD the taxpayer identification numbers of borrowers under the National Housing Act. The Secretary would be required to establish safeguards to ensure that this information is used only to enforce the requirements of the Act.

Subsection (c) would direct the Secretary of HUD to review annually the rates of early serious defaults and claims involving lenders under the National Housing Act. A lender experiencing a rate of early defaults or claims that is higher than normal for the lender's area would be required to submit a report that (1) explains the reasons for the high rate of early defaults and claims and (2) sets forth a plan and timetable for corrective action. A mortgagee that fails to submit the required report or to carry out the plan of corrective action may be suspended from participation in FHA mortgage insurance programs.

Section 132.—Mortgages on Hawaiian Homelands and Indian Lands

Subsections (a) and (b) would transfer programs for insurance of mortgages on Hawaiian homelands and Indian lands to the General Insurance Fund from the Mutual Mortgage Insurance Fund.

Subsection (a)(2) would amend the Act to allow native Hawaiians who own property financed with an FHA insured mortgage to pass on ownership of that property to their children or surviving spouse who do not meet the legal definition of Hawaiian native.

Section 133.—FHA Title I Regulations

Subsection (a) would give any applicant for FHA insurance on property improvement or manufactured home loans under Title I of the National Housing Act the option of complying with either the regulations in effect prior to January 15, 1986 or the new regulations published on October 25, 1985 to be effective on January 15, 1986. The new rule would take full effect on January 1, 1988.

Subsection (b) would require HUD to reopen the rule for public comment and account for the comments received.

Section 134.—Home Equity Conversion Mortgage Insurance Demonstration

This section would create a five-year demonstration program to facilitate the use and promotion of home equity conversion mortgages (HEC) and provide elderly homeowners with a safe way to turn the equity in their home into a stream of income.

Subsection (a) would add a new section—Section 254—to Title II of the National Housing Act.

Subsections 254(a)(1)–(a)(3) would describe the general purposes of the demonstration program.

Subsections 254(b)(1)–(b)(3) would define key phrases used in the section.

Subsections 254(c)(1)–(c)(3) would authorize the Secretary to insure any HEC mortgage eligible for insurance under the section and to make commitments for the insurance of such mortgages prior to the date of their execution or disbursement to the extent the Secretary makes certain determinations.

Subsections 254(d)(1)–(d)(8) would delineate the requirements that a mortgage must satisfy to be eligible for insurance under the section.

Subsections 254(e)(1)–(e)(3) would delineate certain disclosures that each mortgagee under this program must make to individual home owners.

Subsections 254(f)(1)–(f)(5) would delineate certain information that must be provided to home owners prior to executing an HEC mortgage. The information would be provided either by HUD or third-party entities.

Subsection 254(g) would place three limits on the insurance authority established under this section. First, no mortgage could be insured under this section after September 30, 1991, unless a commitment to insure was issued on or before such date. Second, the subsection would limit the total number of mortgages insured under this section to 2,500. Third, insurance coverage under this section would be limited to mortgages of $67,500 in non-high cost areas and $90,000 in high-cost areas.

Subsections 254 (h)(1) and (h)(2) would authorize the Secretary to enter into such contracts, make such investigations and publish and distribute such reports as the Secretary determines to be necessary, desirable or appropriate under the section.

Subsections 254 (i)(1) and (i)(2) would provide additional protections—and appropriate methods for achieving such protections—for the home owner and lender.

Subsection 254(j) would authorize HEC mortgage insurance only where the mortgage defers repayment obligation until death of the home owner and the homeowner's spouse, voluntary sale of the house or the occurrence of other events specified in the regulations.

Subsections 254(k)(1)–(k)(3) would require the submission of certain reports to Congress.

Subsections (b)(1) and (b)(2) of this bill would establish a procedure and time frame for issuing regulations implementing Section 254.

Section 135.—Authority to Purchase Second Mortgages

Subsections (a) and (b) would permanently extend the authority of Fannie Mae and Freddie Mac to purchase second mortgages for home purchase or improvement, which would otherwise expire on October 1, 1987.

Section 136.—Miscellaneous Amendments

Subsection (a) would amend section 223 of the National Housing Act, which contains miscellaneous FHA mortgage insurance pro-

grams, to make sections 223 (a) and (d) consistent with other provisions of the Act that provide for negotiated interest rates.

Subsection (b) would amend section 232(i)(2)(B) of the National Housing Act, which establishes authority to insure loans for the purchase and installation of fire safety equipment in nursing homes, intermediate care facilities, and board and care homes, to permit the borrower and lender to negotiate the interest on the loan. The section is amended to provide consistency with section 232(d)(3)(B) and other provisions of the Act that provide for a negotiated interest rate.

Subsection (c) would change an incorrect reference in section 236(i)(1) from subsection "(h)" to "(f)(4)."

Subsection (d) would amend section 244(f) by striking out paragraph (2) and redesignating the following paragraphs accordingly. Subsection (f)(2) now refers to a nonexistent "second sentence of subsection (d)."

Subsection (e) would change an incorrect capitalization of the word "Mortgagor" in section 247(a)(2).

Subsection (f) would amend sections 248 (a) and (d) of the Act, which are concerned with single family mortgage insurance on Indian lands, to use the defined term "trust or otherwise restricted land" consistently in section 248.

Subsection (g)(1) would amend section 253(b) of the Act to base the definition of "net appreciated value" in the multifamily shared appreciation mortgage program on the actual program cost after completion, as approved by the Secretary, rather than basing it on the speculative measures of estimated value or replacement cost. The amendment would eliminate the possibility that the mortgagee, at the time of sale, would be entitled to share in residual receipts notes that had been executed by the mortgagor during construction. The amendment should also minimize cost increases because mortgagees would have an incentive to limit change orders, thereby keeping the cost basis down and increasing the amount of appreciation to be shared.

Subsections (g)(2) and (g)(3) would amend section 253(c) of the Act, concerning insurance benefits in the event of default, to indicate that multifamily shared appreciation mortgages are obligations of the General Insurance Fund, rather than the Mutual Mortgage Insurance Fund.

Subsection (h) would amend section 810(h) of the Act, concerning housing for the Armed Forces, to conform with other provisions of the Act that provide for negotiated interest rates.

Subsection (i) would amend sections 203(k)(3)(B) and 241(b)(3) to refer to "borrower" and "financial institution" instead of "mortgagor" and "mortgagee" so as to make these sections internally consistent.

Section 137.—Change in the Definition of Veteran

This section would amend the definition of "veteran" in sections 203(b)(2) and 220(d)(3)(A)(i) of the National Housing Act to require that the class of persons enlisting in the armed forces after September 7, 1980 or entering active duty after October 16, 1981 have their veteran eligibility determined in accordance with Title 38, section 3103A(d) of the United States Code.

Section 138.—Repeal of Section 244(c)

This section would repeal Section 244(c) of the National Housing Act, which places certain obsolete restrictions on HUD's co-insurance authority.

Section 139.—Prototype Housing Costs

This section would repeal Section 904 of the Housing and Community Development Act of 1977, which requires HUD annually to prepare and publish prototype housing costs for one- to four-family housing for each of the approximately 650 housing market areas in the United States.

SUBTITLE C.—COMMUNITY AND NEIGHBORHOOD DEVELOPMENT AND CONSERVATION PROGRAMS

Section 141.—City and County Classification

Subsection (a) and (c) would phase out at the end of fiscal 1991 the entitlement status of certain metropolitan cities and urban counties under the Community Development Block Grant Program. These cities and urban counties would receive 50 percent of their entitlement grant in fiscal 1991. The remainder, for which they would be eligible to apply, would be allocated to their states.

Subsection (b) would give cities becoming classified as metropolitan cities the option to defer such classification if they elect to have their population included in an urban county.

Subsection (d) would define the entire non-metropolitan area of a state as the area to be used in determining low and moderate income for the purpose of targeting benefits provided through the state under the Community Development Block Grant (CDBG) program.

Subsection (e) would expand the definition of eligible CDBG activities to include, in addition to grants, loans and other forms of assistance.

Subsection (f) would amend section 105(a)(16) of the 1974 Act to streamline and update the detailed description of an energy use strategy that is eligible for CDBG funding.

Subsection (g) would amend the requirement for state certification of compliance with section 106(d)(2) of the 1974 Act to accept the signature of a designated state official other than the governor.

Subsection (h) would classify Kauai, Maui, and Hawaii, in the State of Hawaii, as eligible cities under the UDAG program, due their unique situation.

Section 142.—Urban Development Action Grant Program

Subsection (a) would authorize UDAG through fiscal year 1989 at "$225,000,000 for each of the fiscal years 1988 and 1989."

Subsection (b) would improve the current set of project quality measures. More weight would be placed on projects designed to retain jobs, bring new capital into the local community or relieve the most pressing employment or residential needs of the applicant. Furthermore, bonus points would be awarded to cities that have not received a grant recently. (No grant for one year: 1 extra point. No grant for two years: 2 extra points.)

Subsection (c) would modify the weighing of selection points to reduce the influence of a locality pre-1940 housing and increase the importance of a locality's poverty and unemployment and a project's "quality" measures. The bill would require at least two approximately equal rounds of competition for UDAG grants annually. Funds for each round would be divided into two pots:

65 percent of the funds would be awarded on the basis of the city's distress and impaction and the project's "quality" measures; and

35 percent of the funds would be awarded on the basis of the project measures alone.

Subsection (d) would permit cities to retain any UDAG funds that are repaid by a project. Cities would be required to submit annually (1) a plan for re-using the funds in compliance with the CDBG statute and (2) an audited report of the re-use.

Subsection (e) would ensure that the Secretary not discriminate against applications on the basis of the type of activity involved (whether it is primarily housing, industrial or commercial) or the type of applicant (whether it is a city or urban county).

Subsection (f) would require GAO to submit a comprehensive UDAG report six months after enactment, and then every three years.

Subsection (g) would require the Secretary to issue such regulations as may be necessary to carry out the amendments made by this section and publish such regulations in the Federal Register within 60 days of enactment of this Act.

Subsection (h) states that the amendments made by this section shall only be applied to those grants awarded after the effective date of enactment.

Section 143.—Prohibition on use of UDAGs for Business Relocation

This section would incorporate in statute HUD's current policy to prevent UDAGs from being used to relocate businesses or jobs from one state or region to another. Language in existing law would be applied to "Speculative Projects" (those that do not have identified occupants). The bill would provide a more stringent test for projects whose occupants are identifiable. For these projects, the bill would not allow any UDAG from being used to relocate a plant or facility from one UDAG city to another or to expand an operation in one city that would lead to a reduction in another city.

Section 144.—CDBG Authorization

This section would extend authorization for Community Development Bank Grants through fiscal year 1989 at "$3,000,000,000 for each of the fiscal years 1987, 1988, and 1989."

Section 145.—Urban Homesteading

Subsection (a)(1) would extend funding authorizations for Urban Homesteading at "$12,000,000 in budget authority for each of fiscal years 1987, 1988 and 1989."

Subsection (a)(2) would extend through fiscal year 1989 the local property demonstration program, under which a grantee can use properties acquired locally through tax liens.

Subsection (a)(3) would allow the Secretary to use up to $1,000,000 of the Urban Homesteading appropriation for the local property demonstration program.

Subsection (a)(4) would require the Secretary to conduct a continuing evaluation of the local property demonstration program and submit to Congress a report "not later than December 31, 1989".

Subsection (b) would permit states taking title to federally-owned properties (those acquired through foreclosure by VA, Farmers Home, HUD) in the Urban Homesteading Program to use a portion of the State administrative CDBG funds for administration of homesteading in non-metropolitan areas.

Subsection (c) would provide for less confusing selection of homesteading families, while giving priority to lower income families. Localities could determine a family's ability to afford home ownership before including the family in a selection lottery.

Section 146.—Rehabilitation Loan Fees

This section would prohibit the imposition of risk premiums or loan fees under the section 312 Rehabilitation Loan Program.

Section 147.—Neighborhood Reinvestment Corporation

Subsection (a) would authorize funding for the Neighborhood Reinvestment Corporation at "$19,0000,000 in budget authority for each of fiscal years 1988 and 1989."

Subsection (b) would change the composition of the Neighborhood Reinvestment Corporation Board to include the chairman or a designated member of the Home Loan Bank Board, Federal Reserve Board, Federal Deposit Insurance Corporation and National Credit Union Administration. Existing law designates only the chairman of each agency.

Section 148.—Neighborhood Development Demonstration Program

This section would authorize the Neighborhood Development Demonstration Program at "such sums as may be necessary for fiscal years 1987, 1988 and 1989." This program provides grants of up to $50,000 to local non-profits to operate programs that promote community economic development and low-income housing production.

Section 149.—Technical Amendments

Subsection (a) would amend section 106(d)(3)(A) of the Housing and Community Development Act of 1974 to provide that a State may not deduct administrative expenses from amounts received for distribution in nonentitlement areas in excess of the sum of $100,000 ($102,000 under current law) plus 50 percent of a State's administrative expenses above $100,000. The $102,000 base is a typographical error.

Subsection (b) would (1) delete the requirements under sections 702 (c), (g) and (h) of the Housing Act of 1954, relating to repayment of any outstanding public works planning advances provided under section 702 of the 1954 Act, and (2) add a new section 702(g), which would terminate the obligation to repay outstanding advances as of the date of enactment of this Act. The purpose of the

Advances for Public Works Planning programs was to encourage States, municipalities, other public agencies and Indian tribes to maintain at all times a current and adequate reserve of planned public works. Advance payments were made under the 1954 Act from 1954 to 1970. The plans designed with these payments are, therefore, 17 to 33 years old and will not likely result in construction of public works. In addition, HUD has estimated that the cost of collecting outstanding planning advances would exceed the amount collected. The amendment would, therefore, eliminate the requirement to maintain a program that serves no useful purpose and will result in a further loss to the Federal government. In addition, many small communities do not have the financial resources to repay HUD if and when the planned public facility is constructed.

Section 150.—Urban Renewal Land Disposition Proceeds

This section would authorize the City of Hartford, Connecticut to retain any land disposition proceeds from the financially closed-out Sheldon-Charter Oak, Section A Urban Renewal Project (No. Conn. R.77) which have not been paid to HUD and to use such proceeds in accordance with the requirements of the Community Development Block Grant program. Similar authorizations have previously been made for Denver, Colorado; Baltimore, Maryland; and Boston, Massachusetts.

SUBTITLE D.—MISCELLANEOUS PROGRAM AMENDMENTS

Section 161.—Studies Under National Flood Insurance Program

This section would authorize flood insurance studies under the National Flood Insurance Act at $37,000,000 for each of the fiscal years 1988 and 1989.

Section 162.—Collection of Certain Data

Subsection (a) would require the Secretaries of HUD and Agriculture to collect data, at least annually, on the racial and ethnic characteristics of individuals participating in each community development, housing assistance, mortgage and loan insurance, and guarantee program administered by these departments.

Subsection (b) would require the annual reports to Congress submitted by HUD and Agriculture to include a summary and evaluation of the data.

Section 163.—Solar Energy and Energy Conservation Bank

This section would authorize the Solar Energy and Energy Conservation Bank at "such sums as may be necessary for each of the fiscal years 1986, 1987, 1988, and 1989."

Section 164.—Research Authorization

This section would authorize HUD research and development programs at $17,000,000 for each of the fiscal years 1988 and 1989.

TITLE II.—HOUSING ASSISTANCE

SUBTITLE A.—PROGRAMS UNDER UNITED STATES HOUSING ACT OF 1937

Section 201.—Lower Income Housing Authorization

Subsection (a) would authorize the Lower Income Housing Assistance Program at $7,510,000,000 for each of the fiscal years 1988 and 1989.

Subsection (b) would require that recaptured program funds for public housing development, comprehensive improvement assistance, or Indian housing be reused for the same purpose, and that any amount available for the conversion of a project to Section 8, if not required for such purpose, shall be used for Section 8 existing housing assistance.

Section 202.—Section 8 Assistance

Subsection (a) would amend Section 8(b)(1) of the 1937 Act to provide that Section 8 existing annual contributions contracts with a public housing authority shall have a 15 year term.

Subsection (b) would amend Section 8(b) of the 1937 Act to require the Secretary to use the method of calculation, the preliminary fee and the percentage for administrative fees paid to a public housing authority for administering Section 8 contracts that were established by the Secretary before January 1, 1985.

Subsection (c) would amend Section 8(c)(1) of the 1937 Act to require HUD to adjust the fair market rents for Section 8 housing on October 1 of each year.

Section 203.—Operating Subsidies

This section would authorize the operating subsidies paid to public housing authorities at such sums as may be necessary for fiscal year 1987 and at $1,600,000,000 for each of the fiscal years 1988 and 1989.

Section 204.—Income Eligibility for Assisted Housing

This section would provide for more flexibility in the administration of income targeting requirements under Section 16(b) of the 1937 Act. The section would retain the requirement that 95 percent of all housing assistance shall go to very-low income households. This section would prohibit the Secretary from totally restricting admission in dwelling units subject to Section 16(b) to very-low income families. The Secretary would be required to establish different percentage limitations for different assisted housing programs, provided that the percentage limitations, when aggregated, achieve the 95 percent requirements.

Section 205.—Rental Rehabilitation and Development Grants

Subsection (a) would authorize the Rental Rehabilitation and Development Grants Program at $320,000,000 for each of the fiscal years 1988 and 1989 (rental rehabilitation at $220,000,000 and development grants at $100,000,000).

Subsection (b) would amend Section 17(k)(4) of the 1937 Act to permit state or locally chartered, neighborhood based, nonprofit

housing organizations to participate in the rental rehabilitation program.

Subsection (c) (1) and (2) would amend Sections 17(b) and 17(e)(1) of the 1937 Act to allow states to administer the rental rehabilitation program in rural areas.

Subsection (c)(3) would amend Section 17(c)(2)(E) of the 1937 Act to adjust the rehabilitation caps to accommodate larger units.

Subsection (d) would amend Section 16(b) of the 1937 Act to ease the 95 percent very low income targeting requirement where that is needed to prevent or ameliorate the effects of displacement in the rental rehabilitation program.

Subsection (e) would amend Section 17(d)(8)(A) of the 1937 Act to give owners the option of basin their calculation of low income rents in buildings assisted under HoDAG on either the most recent estimate of area median income or the estimate that was in effect when the HoDAG application was submitted.

Section 206.—Preventing Fraud and Abuse in Housing and Urban Development Programs

Subsection (a) would allow HUD the option of obtaining the social security number or employer number of programs applicants or participants as a condition of initial or continuing eligibility in HUD housing programs.

Subsection (b) would allow HUD the option of obtaining a consent form signed by the program applicant or participant to request current or previous employers to verify salary and wage information pertinent to the applicant's or participant's eligibility or level of benefits.

Subsections (c) (1), (2), and (3) would define the following terms: Secretary, applicant, participant, and public housing agency.

Subsection (d)(1) would allow HUD access to wage or unemployment compensation information contained in State agency records. The information could be used only to determine an individual's eligibility for HUD assistance. The subsection would also give the Secretary of Labor the authority to withhold payment to a state until it has complied with this provision.

Subsection (d)(2) would establish a procedure for protecting the applicant or participant from the improper use of information.

Subsection (d)(3) would impose a penalty on any person who knowingly and willfully requests or obtains, under false pretenses, information described in this section or any person who knowingly and willfully discloses such information to an individual not authorized to receive it.

Subsection (d)(4) would allow this section to take effect on September 30, 1988 or, at a state's option, any date before September 30, 1988 which is more than 90 days after the date of enactment of this section. Subsections (d)(2) and (d)(3) would take effect 90 days after the date of enactment of this section.

Section 207.—Public Housing Resident Management

This section would add a new Section 20 to the 1937 Act to encourage increased resident management of public housing projects.

Subsection 20(a) would describe the purpose of the section and the general means by which the purpose is to be achieved.

Subsection 20(b) would establish the requirements for entering into a resident management program.

Subsection 20(b)(1) would establish the procedure for establishing a resident management corporation to manage the project.

Subsection 20(b)(2) would allow a public housing management specialist to assist and train the members of the resident management corporation.

Subsection 20(b)(3) would require the resident management corporation to have fidelity bonding and insurance in accordance with applicable regulations and requirements of the Secretary and the public housing agency.

Subsection 20(b)(4) would allow the resident management corporation to enter into a contract with the public housing agency establishing the corporation's rights and responsibilities.

Subsection 20(b)(5) would require the books and records of a resident management corporation to be audited annually by a certified public accountant.

Subsection 20(c) would allow the resident management corporation to receive comprehensive improvement assistance for project renovation.

Subsection 20(d)(1) would require that the portion of the operating subsidy received by a public housing agency for allocation to a project managed by a resident management corporation not be less than the per unit monthly amount that the agency provided to the project in the previous year.

Subsection 20(d)(2) would require the contract for the management of a public housing project to specify the income expected to be derived from the project itself and the amount of funds to be provided to the project from the other sources of income of the public housing agency.

Subsection 20(d)(3) would allow no decrease in funds to the resident management corporation for a specified period unless the total income of the public housing agency is reduced. In that case, the income provided by the public housing agency to the resident management corporation would be reduced in proportion to the reduction in the total income of the public housing agency. In the event that the total income of the public housing agency is increased, the income of the project would be increased proportionately.

Subsection 20(d)(4) would allow the resident management corporation to use any excess revenues to improve the maintenance and operation of the public housing project, to employ residents of the project, and to acquire additional units for lower income families.

Subsection 20(e)(1) would allow HUD assistance to a resident management corporation for development and social support needs.

Subsection 20(e)(2) would limit financial assistance to a particular public housing project under this subsection to $100,000.

Subsection 20(e)(3) would limit the total financial assistance under this subsection to $1,500,000.

Subsection 20(f) would require the Secretary to evaluate the resident management program and submit a report to the Congress not later than 3 years after the date of enactment of this section.

Section 208.—Public Housing Ownership Opportunities

Subsection (a) would add a new Section 21 to the 1937 Act (as amended by section 205 of this Act) to provide lower income families residing in public housing projects an opportunity to purchase the dwelling units in the project through a qualifying resident management corporation.

Subsection 21(a) would establish the general requirements and preconditions of the public housing ownership program.

Subsection 21(a)(1) would require, as a precondition for public housing ownership, that a resident management corporation be formed in such project, that the corporation shall have entered into a contract with the public housing agency and that the corporation shall have demonstrated its ability to manage for a period of not less than 3 years.

Subsection 21(a)(2) would allow comprehensive improvement assistance and training, technical, and educational assistance to a public housing project in which homeownership activities are being conducted.

Subsection 21(a)(3) would allow a resident management corporation to purchase from a public housing agency one or more multifamily buildings in a housing project. The subsection would require the Secretary to make the following determinations: that the resident management corporation is prepared to own and manage the project; that public hearings have been held to obtain the tenant views; that the public housing agency has certified that existing units sold will be replaced within 30 months if justified by local supply; and that the units meet minimum safety and livability standards.

Subsection 21(a)(4) would establish conditions on the resale of units to lower income families. Among other things, the subsection would establish a mechanism for the recapture of any excess of the sales price over the purchase price if the sale is made within five years of the purchase.

Subsection 21(a)(5) would require that public housing agencies use proceeds from the sale of buildings and amounts recaptured only to increase the number of units available for occupancy.

Subsection 21(a)(6) would allow the public housing agency to finance the sale to a family or resident management corporation, if no other financing is available, at a rate of interest not lower than 70 percent of the market interest rate for conventional mortgages.

Subsection 21(a)(7) would require HUD to continue to pay annual contributions to the project.

Subsection 21(a)(8) would disallow operating subsidies to a public housing agency for a building it has sold.

Subsection 21(b) would establish certain protections for nonpurchasing families.

Subsection 21(b)(1) would prohibit eviction of a family as a result of the sale of a public housing project to a resident management corporation.

Subsection 21(b)(2) would give families renting a unit in a building purchased by a resident management corporation the same rights as tenants in public housing.

Subsection 21(b)(3) would allow a family residing in a dwelling unit purchased by a resident management corporation to receive assistance to permit them to remain in the unit.

Subsection 21(b)(4) would allow a family to receive relocation assistance if they decide not to purchase a unit.

Subsection 21(c) would provide financial assistance to the public housing agency to carry out the resident management provision.

Subsection 21(d) would not apply any provisions in this section to the turnkey III, the mutual help, or any other ownership program.

Subsection 21(e) would require HUD to issue regulations to implement the resident management provisions.

Subsection 21(f) would require an annual report by HUD on the need for additional dwelling units as a result of the sale of public housing units and recommendations for additional budget authority to carry out such development.

Subsection 21(g) would require HUD to enter into contracts to provide assistance only if such programs amounts have been provided in appropriation acts.

Subsection (b) of this section would establish that the public housing homeownership program take effect on the date of enactment of this Act. The subsection would also set September 30, 1990 as the date subsections 21(a)(2) and 21(a)(3) no longer have effect.

Section 209.—Limitation on Public Housing Development and Assurance of Public Housing Quality Standards

This section would establish a new subsection 5(j) of the 1937 Act.

Subsection 5(j)(1) would permit the Secretary to reserve funds for the development of public housing only in those where a local housing agency certifies, that (1) the funds are needed to complete units for which funds are already obligated, (2) at least 85 percent of its units are up to HUD's standards or will be upon completion of planned modernization, (3) development is needed to replace units through sale, disposal or redesign, (4) development is needed to comply with court orders or directions of the Secretary, or (5) the locality has demands for family housing that the public housing agency plans to meet with development of not more than 100 units.

Subsection 5(j)(2) would permit up to 20 percent of the development funds to be committed by HUD for substantial redesign, reconstruction or redevelopment of existing public housing projects.

Section 210.—Comprehensive Grants

This section would encourage the development of a proposal to reform the comprehensive improvement assistance program.

Subsection (a) would state Congressional findings that necessitate reform in the comprehensive improvement assistance program.

Subsection (b) would set forth the purposes of this section.

Subsection (c) would require HUD to complete certain studies and present to Congress certain information not later than a year after the date of enactment of this Act.

Subsection (d) would continue the comprehensive improvement assistance program until it is repealed or amended by the Congress.

Section 211.—Revised Definition of Disability

This section would amend the definition of "disability" contained in section 3(b)(3) of the United States Housing Act of 1937 and the definition of "developmentally disabled individual" contained in section 202(d)(4) of the Housing Act of 1959 to refer to the current HHS definition of "developmental disability," contained in section 102(5) of the Developmental Disabilities Assistance and Bill of Rights Act.

Section 212.—Technical Amendments

Section 212 would make several technical amendments to the United States Housing Act of 1937.

Subsection (a) would amend Section 6(c)(4)(A) of the Act to change the placement of the clause providing a preference for public housing applicant families who "are paying more than 50 percent of family income for rent". The clause would now follow the phrase "substandard housing." This amendment would make Section 6(c)(4)(A) consistent with other comparable provisions.

Subsection (b) would amend paragraphs (4) and (5) of Section 6(k) of the Act to change "his" to "their" to conform to plural subject (tenants) and to eliminate the gender-specific references.

SUBTITLE B.—OTHER HOUSING ASSISTANCE PROGRAMS

Section 221.—Nondiscrimination Against Section 8 Certificate Holders

This section would prohibit owners of subsidized projects from discriminating against prospective tenants solely because such tenants hold a voucher or Section 8 Certificate.

Section 222.—Housing for the Elderly and Handicapped

Subsection (a) would extend the authorization for housing for the elderly and handicapped at $595 million for each of fiscal years 1988 and 1989.

Subsection (b) would have the interest rate on loans determined by the Secretary of HUD taking into consideration the rate of recently issued 30-year Treasury securities, with a permanent maximum allowable charge of 9.25 percent. When requesting a conditional or firm commitment, a borrower would have the option of having the interest rate determined taking into consideration the 30-year Treasury bond rate in either the previous month or the last 3 months of the previous fiscal year.

Subsection (c) would have the interest rate on notes determined by the Secretary of HUD taking into consideration the average yield during the last 3 months of the previous fiscal year on issued 30 year Treasury bonds.

Subsection (d) would establish the date of effectiveness of subsection (b) and (c) as the date of enactment of this Act.

Section 223.—Housing for the Handicapped

Subsection (a) would clarify the purpose of handicapped housing.

Subsection (b) would require that HUD develop and implement processing procedures appropriate for the nature and size of small group homes and/or independent living complexes, and, that HUD

set aside at least 15 percent of the total elderly and handicapped housing appropriations to be used for the development of non-elderly handicapped housing.

Subsection (c) would require that each applicant submit a plan for supportive services addressing the special needs of handicapped residents.

Subsection (d) would terminate the use of Section 8 assistance where Section 202 assistance is available.

Subsection (e) would direct the Secretary of HUD to publish in the Federal Register a notice of fund availability under this program within 120 days of the enactment of this Act.

Section 224.—"Section 235" Homeownership Program

This section would allow the continued obligation of funds previously appropriated by extending the program to September 30 1989. No new funds would be authorized.

Section 225.—Congregate Services

Subsection (a) would direct the Secretary of HUD to produce a report to Congress which documents the number of elderly living in federally assisted housing, compares alternative congregate service delivery systems, and assesses the availability of financial resources to support these services at Federal, state and local levels.

Subsection (b) would authorize the Congregate Housing Service Program for fiscal year 1988 at $7 million and for fiscal year 1989 at $13 million, and would allow up to $2 million of the fiscal 1989 funds to be used for a report authorized in subsection (a).

Section 226.—Tenant Eligibility Determinations in Rent Supplement Projects

This section would eliminate the requirement that HUD, upon request by a Rent Supplemental project owner, issue certificates containing certain information on individuals and families applying for admission to the project. The certificates inform the project owner of the applicant's income as well as whether the applicant is occupying substandard housing, is paying more than 50 percent of income for rent or is involuntarily displaced at the time assistance is being sought.

This section would also amend the provision that requires the Secretary of HUD to give priority for available units under Rent Supplement to applicants who are occupying substandard housing or are involuntarily displaced at the time they seek assistance. The section would require the project owner to give preference (rather than priority) to such applicants and would add another category to the list of preferred applicants: those who are paying more than 50 percent of income for rent.

Title III.—Rural Housing

Section 301.—Program Authorizations

This section would authorize a freeze in spending for rural housing programs during fiscal years 1988 and 1989 at the level established in the appropriations act for fiscal year 1987.

Subsection (a) would authorize the Secretary to insure and guarantee no more than a total of $2.033 billion in loans during each of the fiscal years 1988 and 1989, including in each fiscal year no more than $1.340 billion in loans under section 502, $670 million under section 515, $11.5 million under section 514, $11.3 million under section 504, and, $574 thousand under section 524.

Subsection (b) would authorize the following appropriations: $12.5 million under section 504; $713 thousand under section 509(c); such sums as necessary to meet payments for principal and interest under section 511; $9.5 million under section 516; $8 million under section 523(f); $19.1 million under section 533; and such sums as necessary to administer interest credit and housing assistance programs under sections 235, 236 and section 8.

Subsection (c) would authorize appropriations aggregating $160.3 million for each of the fiscal years 1988 and 1989 under the section 521 rent assistance program. This authority must be used to renew expiring assistance contracts and to make additional contracts for existing and new units.

Section 302.—Rural Area Classification

This section would grandfather through fiscal year 1989 towns that had populations between ten thousand and twenty thousand and were eligible under section 520 to participate in FmHA rural housing programs in 1980.

Section 303.—Manufactured Housing

This section would require FmHA loans for manufactured homes, made under section 502(e), to be repayable over the same period as applicable under section 2 of the National Housing Act.

Section 304.—Definition of Very Low Income

This section would clarify the definition of very low income used to determine eligibility for FmHA assistance under section 502(d) to mean either families whose income does not exceed 50 percent of median income in the area or families whose income does not exceed 50 percent of median income for all non-metropolitan areas in the state.

Section 305.—Loan Packaging by Non-Profit Organizations

This section would authorize, as an eligible development cost under section 501, the cost of packaging loan and grant applications for FmHA housing, when the applicant is a public or tax-exempt, non-profit sponsor.

Section 306.—Escrowing Taxes and Insurance

This section would require FmHA to establish procedures under section 501(e) for the escrowing of taxes and other expenses incurred by FmHA assisted homebuyers. Escrow payments would not be considered public funds, and disbursements would be directed by FmHA, which also would be authorized to make necessary advances to pay costs in a timely manner.

Section 307.—Conformance with Low Income Housing Tax Credit Eligibility Criteria

This section would restrict occupancy in Section 515 projects which have been allocated a low income housing tax credit under section 42 of the Internal Revenue Code of 1986 to families whose incomes do not exceed the qualifying income under the Code, unless the Secretary determines, after a period of not less than six months, that vacancies threaten the project's financial viability.

TITLE IV.—FAIR HOUSING DEMONSTRATION

Section 401.—Fair Housing Initiatives Program Demonstration

Subsection (a) would authorize HUD to make grants or enter into contracts with State, local governments, or private nonprofit organizations to formulate and carry out programs to prevent discriminatory housing practices under the appropriate Civil Rights Laws.

Subsection (b) would require HUD to notify the appropriate Congressional Committees of proposed grants and summarize the activities funded under this section.

Subsection (c)(1) would require HUD to issue regulations to carry out the provisions of this section.

Subsection (c)(2) would require the regulations to include certain provisions governing applications for assistance under this section.

Subsection (c)(3) would require the Secretary to establish guidelines for testing activities funded under the private enforcement initiative of the fair housing initiatives program. The guidelines would be for use during the demonstration period authorized in this section and the Secretary would be required to submit to Congress, within 6 months of the close of the demonstration period, an evaluation of the guidelines.

Subsection (c)(4) would require that regulations issued under this subsection not become effective until 90 days after the Secretary transmits the regulations to the appropriate Congressional Committees.

Subsection (c)(5) would require the Secretary not to obligate or expend any amount under this section until the effective date of the regulations.

Subsection (d) would authorize this demonstration program at $5,000 for each of the fiscal years 1988 and 1989, with not more than $3,000,000 in each fiscal year to be used for the private enforcement initiative demonstration.

Subsection (e) would require the demonstration period authorized by this section to close on September 30, 1989.

TITLE V.—NEHEMIAH HOUSING OPPORTUNITY GRANTS

Section 501.—Statement of Purpose

This section would establish the purposes of this program: (1) to encourage home ownership by those otherwise unable to afford it, (2) to rebuild depressed areas and reestablish neighborhoods, (3) and to increase employment of eligible neighborhood residents.

Section 502.—Definitions

This section would apply the following definitions to this program:

"Fund" would mean the Nehemiah Housing Opportunity Fund;

"Home" would mean any 1–4 family dwelling and includes dwelling units in condominium projects, cooperatives, townhouses or manufactured homes;

"Lower Income Families" is defined to be consistent with the similar term used in the Housing Act of 1937;

"Metropolitan Statistical Area" would mean an area so defined by the Office of Management and Budget;

"Non-profit Organization" would mean a private non-profit corporation, or other private non-profit legal entity that is approved by the Secretary as to financial responsibility;

"Secretary" would mean the Secretary of Housing and Urban Development;

"State" would mean each of the fifty states, the District of Columbia, the Commonwealth of Puerto Rico, the Virgin Islands, Guam, American Samoa, the Northern Mariana Islands, the Trust Territory of the Pacific Islands, and any other territory or possession of the United States;

"Substantial Rehabilitation" would mean rehabilitation in excess of 60 percent of the maximum sale price of a home or the rehabilitation of a vacant or uninhabitable structure;

"Unit of General or Local Government" would mean any borough, city, county, parish, town, township, village, or other general purpose political subdivision.

Section 503.—Assistance to Nonprofit Organizations

This section would authorize the Secretary to provide assistance to non-profit organizations in the form of grants and would require applications to be in a form and submitted in accordance with procedures prescribed by the Secretary.

Section 504.—Use of Assistance

This section would require that any non-profit organization receiving assistance to provide loans to families purchasing homes that are newly constructed or substantially rehabilitated. Each loan shall be for an amount not to exceed $15,000, bear no interest, and be repayable to the Secretary upon the sale, lease, or other transfer of the property.

Section 505.—Program Requirements

Subsection (a) would require that assistance be provided only in conjunction with a Nehemiah program of construction or substantial rehabilitation.

Subsection (b) would require each participating family (1) to have an income no higher than the greater of the national median income or 115 percent of the area median income for a family of four, and (2) to have owned no home for three years preceding purchase under this program.

Subsection (c) would require each participating family to make a downpayment of at least 10 percent of the sales price of the home and would require the non-profit organization to pay interest at a rate not less than that available on passbook accounts, which interest would accrue from the time the downpayment is made until the time of settlement.

Subsection (d) would prohibit any family purchasing a home under this title from leasing the home.

Section 506.—Terms and Conditions of Assistance

This section would establish conditions to be met prior to receiving assistance.

Subsection (a) would prevent approval of an application unless the Secretary is satisfied that local consultation and support for any proposed Hehemiah program has been demonstrated, including input from residents of the neighborhood and approval from each pertinent unit of general local government.

Subsection (b) would require the applicant non-profit organization to submit an estimated schedule of completion of its proposed program.

Subsection (c) would prohibit a non-profit sponsor from commencing any construction or rehabilitation until at least 25 percent of the proposed units are contracted for sale and the required downpayments are made.

Subsection (d) would require the non-profit sponsor to demonstrate the financial feasibility of its proposed project, including the availability of non-federal public and private funding.

Subsection (e) would require the project scale to equal at least 50 homes, 0.25 percent of the existing dwelling units in a community, or 250 homes whichever is less.

The subsection also provides that any unit constructed or substantially rehabilitated under this program would have to comply with applicable local building codes or, in their absence, a nationally recognized model building code mutually agreed upon by the non-profit sponsor and the Secretary. A manufactured home would have to comply with the standards prescribed under Title VI of the Housing and Community Development Act of 1974 and the installation, structural, and site requirements applicable under Title II of the National Housing Act. The subsection further would require all units to comply with energy performance requirements established under Section 526 of the National Housing Act, or in the case of manufactured housing, the energy conservation requirements prescribed under Section 203(b) of the National Housing Act.

The subsection would require all Hehemiah homes to be located in neighborhoods where the median family income is not more than 80 percent of the median income of the area in which the program is to be located. The median income could be determined under Section 8 of the United States Housing Act of 1937.

The subsection would require all homes in a project to be concentrated in a single neighborhood and located on contiguous parcels of land, unless the unit of general local government certifies that such land is unavailable, in which case the project would have to cover at least 20 percent of the homes in an identifiable neighborhood.

The subsection would require sales contracts under the program to provide for repayment upon sale or transfer of the home involved, unless otherwise stipulated by the Secretary.

Section 507.—Program Selection Criteria

Subsection (a) would establish grant selection criteria for the Secretary to use. Awards should be made on the basis of the extent to which:

(1) non-federal public and private entities will donate land;

(2) non-federal public and private financial or other contributions (including tax abatements, waivers of fees related to development, waivers of construction, development, or zoning requirements, and direct financial contributions) will reduce the cost of eligible homes under this program;

(3) a proposed program will produce the greatest number of units for the least amount of assistance, taking into consideration cost variances in different market areas;

(4) a program is located in a neighborhood of severe physical and economic blight as determined by the Secretary;

(5) a program employs construction methods that reduce the unit cost of construction below the average in the area involved; and

(6) a program provides for the involvement of local residents in the planning, construction or rehabilitation of eligible homes.

Subsection (b) would provide that criterion (1) or criterion (2) listed above would not be considered in evaluating a program if the non-federal public entities are prohibited by state law from making the contributions mentioned in those criteria.

Section 508.—Distribution of Assistance to Nonprofit Organizations

Subsection (a) would direct the Secretary of HUD to reserve sufficient amounts in the Nehemiah Housing Opportunity Fund for any Nehemiah housing opportunity program that is selected.

Subsection (b) would require the Secretary, within 30 days after a qualifying home is sold, to provide the non-profit sponsor with funds equal to the amount of the loan made to the family purchasing the home.

Subsection (c) would limit payments to a non-profit sponsor at $15,000 per home.

Section 509.—Nehemiah Housing Opportunity Fund

Subsection (a) would establish the Nehemiah Housing Opportunity Fund, a revolving fund available to the Secretary, in amounts approved in appropriations acts, to carry out the purposes of this title.

Subsection (b) would provide that assets of the Fund consist of any amount appropriated under Section 512, any amount received by the Secretary from the repayments of loans under Section 504(b)(4), and any interest on investment of assets of the Fund.

Subsection (c) would direct the Secretary to invest those assets of the Fund that are not required for current obligations of the program. Such investment would have to be in obligations issued or guaranteed by the United States or a federal agency.

Section 510.—Annual Report

This section would require the Secretary to prepare and submit to Congress an annual report on the activities required under the Nehemiah program. The report would include characteristics of the families assisted under this title with respect to size, income, race, age, and sex; an analysis of the market value of homes purchased under this title in the preceding year; an analysis of the non-federal public and private financial and other contributions made during the preceding year to reduce the cost of homes assisted under each local program; an analysis of the sales prices of homes assisted under each local program; an analysis of the amount of the grants made to local programs during the preceding year; and any recommendation of the Secretary for modifications in the program to ensure its effective implementation.

Section 511.—Regulations

This section would authorize the Secretary to issue such regulations as may be necessary to carry out the provisions of this title.

Section 512.—Authorization of Appropriations

This section would authorize appropriations at such sums as may be necessary to carry out the provisions of this title in each of fiscal years 1988 and 1989. Any amounts appropriated under this Section would be deposited in the Nehemiah Housing Opportunity Fund and remain available until expended.

Regulatory Impact Statement

In accordance with paragraph 11 of Rule XXVI of the Standing Rules of the Senate, the Committee makes the following statement regarding the regulatory impact of the bill.

Enactment of the reported measure would in the aggregate reduce regulatory and administrative burdens. Two programs—the Federal Crime Insurance Program and the section 235 Single Family Homeownership program—would not be reauthorized. The enactment of other programs, such as public housing resident management, would ultimately lead to a lessening of government involvement. Moreover, the antifraud and abuse provision and the verification requirements for public housing and FHA would significantly contribute to the overall efficiency and effectiveness of those programs. The antifraud and abuse provision, in particular, was designed to ensure privacy and to protect participants when inaccurate information is obtained.

Although the reported bill would authorize new programs, the Committee was cognizant during their design to prescribe only the minimum necessary regulatory requirements.

Changes in Existing Law

The Committee has determined that it is necessary, in order to expedite the business of the Senate, to dispense with the requirements of Rule XXVI, paragraph 12, of the Standing Rules of the Senate, with respect to this legislation.

U.S. CONGRESS,
CONGRESSIONAL BUDGET OFFICE,
Washington, DC, March 23, 1987.

Hon. WILLIAM PROXMIRE,
Chairman, Committee on Banking, Housing, and Urban Affairs, U.S. Senate, Dirksen Senate Office Building, Washington, DC.

DEAR MR. CHAIRMAN: The Congressional Budget Office has prepared the attached cost estimate for the Housing and Community Development Act of 1987.

If you wish further details on this estimate, we will be pleased to provide them.

With best wishes,
Sincerely,

EDWARD M. GRAMLICH,
Acting Director.

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: Not yet assigned.

2. Bill title: Housing and Community Development Act of 1987.

3. Bill status: As ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs, March 12, 1987.

4. Bill purpose: The bill would amend various laws relating to and authorizing funding for the federal government's housing and community and economic development programs. The bill would provide permanent mortgage insurance authority for the Federal Housing Administration (FHA) and extend certain other community development insurance programs through the end of fiscal year 1989.

In addition, the bill would establish two new programs, the Nehemiah housing opportunity grants program and the Fair Housing Initiative Program.

5. Estimated cost to the Federal Government: The following table summarizes the estimated budget impact of this bill relative to current law. It includes both new authorizations and direct spending effects.

[By fiscal year, in millions of dollars]

	1987	1988	1989	1990	1991	1992
Budget Function 370:						
Estimated budget authority authorization level		2,785	2,853	190	256	263
Estimated outlays		−218	−109	−538	−1,132	−1,500
Budget Function 450:						
Estimated budget authority/authorization level		3,700	3,712	7	1	
Estimated outlays		170	1,493	3,159	2,174	393
Budget Function 600:						
Estimated budget authority/authorization level		9,167	9,173			
Estimated outlays		882	2,026	2,835	2,230	1,196
Budget Function 750:						
Authorization level		5	5			
Estimated outlays		1	5	4		

[By fiscal year, in million of dollars]

	1987	1988	1989	1990	1991	1992
Budget Function 900:						
Authorization level		−20	−130	−284	−373	−396
Estimated outlays		−20	−130	−284	−373	−396
Bill total:						
Estimated budget authority/authorization level	15,640	15,613	−87	−116	−133	
Estimated outlays	815	3,285	5,176	2,899	−307	

Basis of estimate: The estimate assumes enactment of the bill by July 1, 1987. Further, it was assumed that the full amounts authorized would be appropriated prior to the beginning of each fiscal year.

DIRECT SPENDING

Federal Housing Administration Mortgage Insurance.—Title I of this bill provides for the permanent authorization of FHA mortgage insurance activities. Currently, those activities are authorized to continue through fiscal year 1987. The bill would also maintain premiums at the present level of 3.8 percent of the loan amount. The budgetary effects of the permanent FHA authorization included in this estimate are based upon the 3.8 percent premium level and baseline levels of insurance written, ranging from $57 billion in fiscal year 1988 to $68 billion in 1992. The budgetary effects of this extension are shown under Function 370 below.

Flood Insurance Reauthorization.—The bill would extend the authority of the National Flood Insurance Fund to issue flood insurance through the end of fiscal year 1989. It would also prohibit annual premium increases exceeding 10 percent. The budget impact included in this estimate is shown under Function 450 below and assumes no such premium increase. The flood insurance reauthorization reduces outlays in fiscal year 1988 because of the fund's renewed authority to collect premiums. Without reauthorization, premium income would end, but the fund would remain liable under certain policies for up to three years.

Release of Pool Funds.—The bill would give state (and local) housing finance agencies (SHFAs) access to the remaining balances of funds that were originally reserved in 1975 to help SHFAs close out their pipelines of uninsured Section 236 projects. The agencies would be able to use these funds for a variety of purposes, including mortgage increases, operating deficit loans and the provision of rent supplement or rental assistance payments to additional units in existing Section 236 projects.

Increase in PHA Management Fees.—This provision would increase the fees paid to public housing agencies for administering the Section 8 existing housing program to their pre-1985 levels. Annual fees would increase from 7.65 percent to 8.5 percent of the two-bedroom fair market rent. Preliminary fees would increase from $250 to $275 per unit.

[By fiscal year, in millions of dollars]

Direct spending	1987	1988	1989	1990	1991	1992
Budget Function 370:						
Estimated budget authority						
Estimated outlays		−1,225	−2,045	−2,025	−2,038	−2,049
Budget Function 450:						
Estimated budget authority		71	80	7	1	
Estimated outlays		−14	7	34	13	5
Budget Function 600:						
Estimated budget authority						
Estimated outlays		53	56	59	62	65
Bill total—direct spending:						
Estimated budget authority		71	80	7	1	
Estimated outlays		−1,186	−1,982	−1,932	−1,963	−1,979

AUTHORIZATIONS

Title I.—Program extensions and amendments

For most authorizations, the amounts are specified in the bill, and outlays are estimated by CBO, assuming appropriation of the necessary sums.

Title I includes the reauthorization or extension of several loans or insurance programs, as well as specific authorizations for all the other programs shown, except the Neighborhood Development Demonstration. For the latter program, which the bill authorizes at such sums as may be necessary, we have estimated the authorized appropriation at baseline levels, or the current level of appropriations adjusted for inflation.

Section 162 of the bill would require the Secretary of Housing and Urban Development (HUD) and the Secretary of Agriculture to collect data on the racial and ethnic characteristics of persons benefiting from each community development, housing assistance, and mortgage and loan insurance and guarantee program administered by such Secretary, and to include a summary and evaluation of this data in their respective annual reports to the Congress. Depending on how this requirement is interpreted, the cost of this provision to the agencies involved could vary greatly. For example, based on information provided by the Department of Housing and Urban Development, only if the data to be collected were on a sample basis, pertained only to direct beneficiaries, and was actually collected by grantees could the requirement be accomplished without significant additional cost.

The bill also requires, in Section 142(f), the Comptroller General to prepare a one-time report on the effect of the bill's provisions on the distribution of Urban Development Action Grants (UDAG) funds, and an evaluation every three years on the eligibility standards, selection criteria, and data used in awarding UDAGs. Based on information provided by the General Accounting Office (GAO), we estimate that it would cost the GAO approximately $100,000 to prepare the one-time study, and $250,000 each time to prepare the UDAG evaluation.

TITLE I.—PROGRAM EXTENSIONS AND AMENDMENTS

[By fiscal year, in millions of dollars]

	1987	1988	1989	1990	1991	1992
FHA reauthorization:						
Estimated budget authority						
Estimated outlays		−1,225	−2,045	−2,025	−2,038	−2,049
Flood insurance reauthorization:						
Estimated budget authority		71	80	7	1	
Estimated outlays		−14	7	34	13	5
Rehabilitation loan fund extension:						
Estimated authorization level						
Estimated outlays		39	77	34	−7	−7
Release of pool funds:						
Estimated budget authority						
Estimated outlays		7	7	7	7	7
Urban development action grants:						
Authorization level		225	225			
Estimated outlays		11	56	101	113	113
Community development block grants:						
Authorization level		3,000	3,000			
Estimated outlays		60	1,200	2,700	1,800	240
Urban homesteading:						
Authorization level		12	12			
Estimated outlays		8	12	4		
Neighborhood Reinvestment Corporation:						
Authorization level		19	19			
Estimated outlays		19	19			
Neighborhood Development Demonstration Program:						
Estimated authorization level		2	2			
Estimated outlays			1	2	1	
Flood studies:						
Authorization level		37	37			
Estimated outlays		20	31	15	7	1
HUD research and technology:						
Authorization level		17	17			
Estimated outlays		5	14	11	3	1
Total title I:						
Authorization level		3,383	3,392	7	1	
Estimated outlays		−1,070	−621	883	−101	−1,689

Title II.—Housing assistance

Title II of the bill would authorize the appropriation of $7.5 billion for each of the years 1988 and 1989. Based on the program mix included in fiscal year 1987 appropriations acts, these funding levels could assist an estimated 98,000 units in 1988 and about 94,000 units in 1989. For this cost estimate, about $1.4 billion of the authorized amounts in each year were assumed to be used for the public housing modernization programs.

The bill would also authorize the appropriation of $595 million of direct loan authority for HUD's section 202 elderly and handicapped housing program. This amount would be provided for both 1988 and 1989. This is estimated to be sufficient to fund about 11,300 units in 1988 and 10,800 units in 1989.

TITLE II.—HOUSING ASSISTANCE

[By fiscal year, in millions of dollars]

	1987	1988	1989	1990	1991	1992
Section 8 and public housing commitments:						
Authorization level		7,510	7,510			
Estimated outlays		11	327	1,946	2,156	1,122
Increase PHA management fees:						
Estimated budget authority						
Estimated outlays		46	49	52	55	58
Public housing operating subsidies:						
Authorization level		1,600	1,600			
Estimated outlays		800	1,600	800		
Rental rehabilitation grants:						
Authorization level		220	220			
Estimated outlays		22	66	198	154	
Rental Development grants:						
Authorization level		100	100			
Estimated outlays			10	60	90	40
Housing for the elderly and handicapped:						
Authorization level		595	595			
Estimated outlays			109	303	293	149
Elderly housing interest to Treasury:						
Estimated authorization level			−4	−19	−40	−54
Estimated outlays			−4	−19	−40	−54
Congregate housing services:						
Authorization level		7	13			
Estimated outlays			4	6	6	4
Total title II:						
Authorization level		10,032	10,034	−19	−40	−54
Estimated outlays		879	2,161	3,346	2,714	1,319

Title III.—Rural housing

Title III would authorize direct rural housing loans totaling about $2 billion in each of the fiscal years 1988 and 1989. Of this amount $1.34 billion would be for single-family homeownership mortgages and $670 million would finance the construction of multifamily rental projects. In addition, $160 million would be authorized in each year for rural rental assistance payments.

TITLE III.—RURAL HOUSING

[By fiscal year, in millions of dollars]

	1987	1988	1989	1990	1991	1992
Rural housing loans:						
Authorization level		2,190	2,258	190	256	263
Estimated outlays		1,007	1,827	1,184	613	400
Rural Housing interest to Treasury:						
Estimated authorization level		−20	−126	−265	−333	−342
Estimated outlays		−20	−126	−265	−333	−342
Rural housing grants:						
Authorization level		50	50			
Estimated outlays		18	39	24	6	5
Total title III:						
Authorization level		2,220	2,182	−75	−77	−79
Estimated outlays		1,005	1,740	943	286	63

Title IV.—Fair housing initiatives

Title IV would establish the Fair Housing Initiatives Program Demonstration. This program would enable HUD to provide grants to organizations, including state and local governments and nonprofit institutions, with programs to prevent or eliminate discriminatory housing practices.

The bill would authorize the appropriation of $5 million in fiscal years 1988 and 1989. This estimate assumes that the Congress will appropriate the full amounts authorized. The estimated outlays are based on information provided by HUD.

TITLE IV.—FAIR HOUSING INITIATIVES

[By fiscal year, in millions of dollars]

	1987	1988	1989	1990	1991	1992
Authorization level		5	5			
Estimated outlays		1	5	4		

Title V.—Nehemiah grants

Title V would authorize a new program of Nehemiah housing opportunity grants at such sums as may be necessary, but since there is no current funding for the program and no specification of program size or activity, there is no basis for projecting an appropriation level. The tables in this cost estimate therefore do not include the cost of this program.

6. Estimated cost to State and local governments: The bill expands the programs for which administrative expenses incurred by the state may be deducted from the amounts received under the non-entitlement portion of the CDBG program. This could result in savings for state governments.

7. Estimate comparison: None.

8. Previous CBO estimate: None.

9. Estimate prepared by: Carol Cohen, Paul DiNardo, Brent Shipp, and Michael Sieverts and Carla Pedone.

10. Estimate approved by: C.G. Nuckols (for James L. Blum, Assistant Director for Budget Analysis).

ADDITIONAL VIEWS OF SENATOR JAKE GARN

The Senate Housing bill has come out of the blocks quickly during the 100th Congress. Many provisions of this legislation are programs whose goals are admirable: helping more moderate- and low-income citizens achieve the American dream—homeownership. However, other provisions of the bill make this legislation a "budget buster".

The bill contains provisions creating new initiatives, program expansion, and perpetuates a number of existing programs the nation simply cannot afford if we are to be fiscally responsible. The Committee has authorized obligations at levels that can never realistically be funded. In addition, the Senate will soon be faced with an initiative to aid homeless persons which would be an additional $400–$500 million. The scope and cost of this homeless package has not even been considered by the Committee in connection with this bill.

The budget deficit is not going to go away if simply ignored by the authorizing Committee. The Banking Committee has not set its own funding priorities and consequently has not given any direction to the Appropriations Committee. I personally will have another vote on funding this legislation when it comes before the Appropriations Committee. However, the majority of my colleagues on the Banking, Housing, and Urban Affairs Committee have forfeited their responsibility for funding the proposals in the bill to another forum.

JAKE GARN.

ADDITIONAL VIEWS OF SENATOR WILLIAM ARMSTRONG

In less than two months, the Senate Banking Committee has reported two major authorization bills reflecting a cavalier disregard for their fiscal consequences. In doing so, the Committee has demonstrated the essential cause of the gridlock in Congress on fiscal policy. The Banking Committee, like every other committee, has expertise on programs within its jurisdiction, along with a vested interest to protect them. Its examination of those programs is done in isolation, and largely ignores the big picture: an overall accounting of Federal budget priorities and how they will be affected by this legislation.

Since the Committee has not done so, let me take a moment to reflect on the "big picture." In the current fiscal year, FY 1987, the budget deficit will exceed the maximum amount allowed under Gramm-Rudman-Hollings by at least $30 billion, and rising. In FY 1988, Congress must reduce the deficit by over $60 billion to reach the deficit target of $108 billion. In May, Congress will be asked to raise the national debt to $2.3 trillion—more than double what it was seven years ago. Net interest costs on the debt now exceed $150 billion annually. Indeed, the Federal government will spend more on interest payments this decade than the entire accumulated national debt from the founding of the Republic in 1787 to 1980.

Some of us consider this to be a continuing problem. The Banking Committee remains undaunted. It has spent the better part of this year making a conscious decision to do nothing to help address this state of fiscal disarray. That is especially distressing since the Committee has jurisdiction over some of the least defensible programs in the Federal budget. Last month, the mass transit bill was rammed through the Senate. This month, it is a multi-billion dollar housing authorization measure.

I have no quarrel with the goal of this legislation: to help low income Americans obtain decent and affordable housing. Some of the programs authorized by this bill serve that purpose well. But weighed in the balance, this legislation is off the mark.

First, the bill would reauthorize another $15 billion for HUD subsidized housing over the next two years. This is $7.4 billion in excess of the President's request. Some may say this authorization is necessary because housing programs have already been cut deeply under this Administration. Not so. It is true that annual commitments of new budget authority have been reduced significantly over the past five years, along with the number of new units added each year to the existing HUD inventory.

But annual housing outlays continue to climb to record levels. In 1980, outlays for HUD subsidized housing were $5.6 billion. In FY 1986, housing outlays had risen to $12.4 billion—an increase of nearly $7 billion, or 120%, during fiscally austere times. Since 1962, $177 billion has been spent by the Federal Government on

HUD subsidized housing. $88 billion of this has been spent since FY 1981 alone. The reason housing outlays continue to increase is that annual commitments of budget authority are spent slowly and over a long period of time. Indeed, of the $381 billion Congress has appropriated for HUD housing programs since 1937, $156 billion has actually been spent, meaning at least $225 billion is already committed to be spent in the future—even without the additional authorization in this bill. In simple terms, this is why the Committee must continue to control spending on housing programs.

Second, this legislation reauthorizes through FY 1989, at a cost of taxpayers of $650 million, two of the most nonessential programs known to man: UDAG and HoDAG. Billions in UDAG funds have gone to support commercial development projects to build high class hotels, shopping centers, or boating marinas. "The clearest beneficiaries of [UDAG]," noted a recent Washington Post editorial, "are often developers who are decidedly not poor." In relative terms, UDAG is a small program at $225 million per year. But it stands as the litmus test of Congress' willingness to reduce deficits by cutting unnecessary spending. The Banking Committee once again gets an "F" on this exam.

The HoDAG program is perhaps even worse. Only one-fifth of the rental units it helps build go to low income families. The rest of the units, along with 60% of HoDAG funds, go to middle and upper-class renters. An average grant of $73,400 is necessary to build one low income unit under HoDAG. That makes no sense at all.

Third, this legislation creates a new "Nehemiah" grant program which is intended to improve homeownership opportunities for middle-income Americans. The proposal would authorize interest-free $15,000 grants to help families earning up to 115% of the local median income buy a new townhouse built as part of a neighborhood redevelopment project.

I applaud the goal of the Nehemiah program: to promote homeownership and transform previously blighted areas into beautiful neighborhoods. but I am skeptical that any new housing subsidies of this nature should be created in light of the serious budgetary constraints facing Congress. Also, I find it difficult to justify targeting such subsidies to relatively well-off middle class families. As currently drawn, families earning as much as $48,000 in Washington, D.C., $42,000 in Houston, $39,000 in Boston, or $35,000 in Denver would be eligible for a grant. In my view, the worthy objectives of the Nehemiah program would be better served if this assistance were targeted toward lower-income families where it is surely more in need.

Finally, I cannot accept the notion that this authorization bill has little meaning, since funds are not actually spent until the appropriations process. This bill would lock into Federal law, for at least two more years, programs and policies that, in my judgment, should be carefully re-examined. Since the budget process for FY 1988 has barely begun, it would be a mistake for the Senate to approve this authorization without first considering its relation to an

overall spending plan for FY 1988. If it takes such a view, I suspect the Senate will decide that some of the programs in this bill will have to go. If the Senate cannot begin to set budget priorities here, what will it do when the choices become even more difficult?

WILLIAM L. ARMSTRONG.

ADDITIONAL VIEWS OF SENATOR GRAMM

In 1980, Congress passed the Housing and Community Development Act, which contained a provision that denied eligibility for public housing benefits to illegal aliens. That prohibition was reaffirmed last year in the Immigration Reform Act of 1986.

However, despite the clear intent of Congress and the passage of more than six years, the Department of Housing and Urban Development (HUD) has still not issued the regulations that are needed to insure compliance with the Congressionally imposed ban on illegal aliens residing in public housing.

I believe that the Congress should direct HUD to issue the necessary compliance regulations and I intend to offer such an amendment to the Housing legislation when that measure is considered by the full Senate. Individual states, however, would retain the right to request a waiver of compliance.

The amendment would mandate that HUD develop immediately the regulations and mechanisms required to enforce the law. A number of verification options are available to achieve this purpose. After the passage of more than six years since the enactment of the initial prohibition, there is simply no reason why the Congress should not take action. Failure to do so means that individuals eligible for public housing assistance will unnecessarily be hampered in their search for accommodations because such facilities will continue to be used by recipients to whom the Congress has repeatedly denied eligibility.

Further, the Department of Justice estimates that between $200–$250 million annually would be saved if the prohibition against illegal aliens were enforced by HUD.

I encourage my colleagues to give this matter their most serious attention and review.

PHIL GRAMM.